Saturday June

Austria ... Sch. 18	Indonesia .. Rp 2700	Portugal ... Esc 80
Bahrain ... Din.0.650	Italy .... L 1300	S. Arabia ... Rls 6.00
Belgium ..... BFr 38	Japan Y550	Singapore . S$ 4.10
Canada ..... C$2.00	Jordan ... Fils.500	Spain ..... Pta 110
Cyprus ..... C£0.60	Kuwait ... Fils.500	Sri Lanka ... Rup 30
Denmark .. DKr.7.25	Lebanon .. £L 8.00	Sweden ... Skr 6.50
Egypt ..... E£1.00	Luxembourg . LFr.38	Switzerland SFr 2.20
Finland .. Fmk 6.00	Malaysia .. Rin 4.25	Taiwan ... NT $55
France ... FFr. 8.00	Mexico .. Pes 300	Tunisia .. Din 0.600
Germany . DM 2.20	Morocco .. Dh 6.00	Turkey ..... L 210
Greece ...... Dr 70	Netherlands . Fl 2.50	U.A.E ... Dh 6.50
Hong Kong . HK$ 12	Norway .. Nkr. 6.00	U.S.A. $1.50
India ..... Rup. 15	Philippines . Pes. 20	

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,639 — Monday June 3 1985 — D 8523 B

U.S. tax: Reagan deals a clever hand, Page 14

World news

Indefinite Uefa ban on English clubs

The European football union (Uefa) yesterday banned English clubs indefinitely from inter-club matches in Europe.

The Uefa executive committee brought its Basle meeting forward a month following the riots at the European Cup final in Brussels last week, in which 38 people died.

Uefa said the case of Liverpool, whose supporters have been blamed for starting the riot before the match against Juventus of Turin, would be referred to a committee for special sanctions to be taken.

Peace talks

U.S. Secretary of State George Shultz has told Israel the U.S. will try to discuss peace with a Jordanian-Palestinian delegation despite Israeli objections to talks that exclude it, Israeli officials said. Earlier report Page 2

Shamir in London

Israeli Foreign Minister Yitzhak Shamir arrived in London to brief British leaders about his Government's attitude towards efforts by Jordan to break the stalemate in the Middle East peace process. Page 2

Star wars warning

West Germany's Free Democrats said they would oppose any attempt by their coalition partners to put the U.S. star wars defence programme ahead of co-operation with France. Page 3

UK backs Eureka

Britain has decided to support Eureka, a French initiative to stimulate high-technology research and development in Western Europe, the Foreign Office said in London.

Sindona for trial

Sicilian financier Michele Sindona goes on trial in Milan tomorrow accused of paying a Mafia gunman to kill the official liquidator of his failed business empire.

Lisbon's future

The future of Portugal's ruling coalition rests with a meeting today of leaders of the PSD, the junior partner. Page 3

Disaster aid plea

The governors of Ohio and Pennsylvania asked for federal disaster aid to rebuild areas hit by tornados which killed at least 87 people.

New Caledonia poll

Two Kanak separatist parties in New Caledonia said they would take part in French-run elections planned by Paris as the first stage of ending its 30-year rule in the South Pacific territory.

Oil price meeting

Ministers from Opec member countries gathered in Saudi Arabia for talks expected to centre on a Saudi call for reductions in some crude oil prices. Page 16

Bangladesh cholera

At least 46 people in Bangladesh's cyclone disaster zone died from suspected cholera after drinking polluted water. Local officials said they feared a major outbreak.

Delors 'may quit'

European Commission President Jacques Delors hinted in an interview that he might resign if European politicians did not take greater interest in the EEC, the West German Stern magazine said.

Beirut evacuation

The Red Cross tried to speed up the evacuation of wounded from Beirut's Palestinian refugee camps after security guarantees. Page 2

Indian heat wave

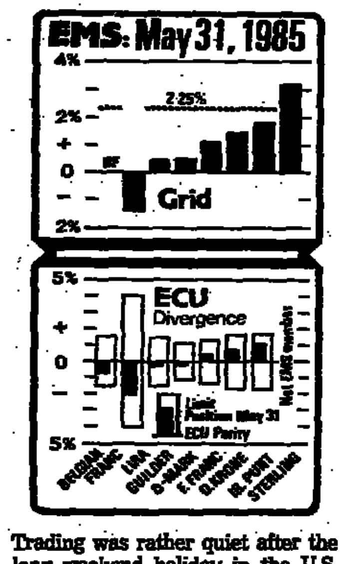
A heat wave in Bihar, eastern India, has killed about 40 people in the past few days as temperatures reached 46C (115F). Most victims were children.

Business summary

Swedish devaluation warning by OECD

SWEDEN has not found the way to halt erosion of its international competitiveness in the medium term and to avoid a devaluation cycle, says a report by the Organisation for Economic Co-operation and Development. Page 3

EUROPEAN Monetary System: the Irish punt remained the firmest currency within the EMS last week.



Trading was rather quiet after the long weekend holiday in the U.S. and UK and ahead of the end of the month. The Belgian franc was a little weaker overall but stayed comfortably within its divergence limit, allowing the Belgian central bank to cut its discount rate, for the third time this month, to 9½ per cent. Euro-dollar interest rates were also easier but with the exception of Belgium, there were no changes in key European lending rates.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

U.S. proposal setting conditions for allowing extra imports of steel pipes from the EEC will be presented to member states this week following talks in Washington. Page 5

ARGENTINA faces a worsening of its foreign debt crisis, including the collapse of a $4.2bn short-term loan package agreed last year, unless it agrees an economic reform programme with the IMF by next Monday. Page 17

POLAND devalued its non-convertible zloty by 16.8 per cent to the dollar and 14.3 per cent to the Soviet rouble. Page 3

ISRAEL'S foreign reserves fell by $61m last month to $2.025bn, Bank of Israel said. It was the biggest drop in three months.

U.S. FEDERAL and state banking authorities closed a total of seven small banks hit by problem loans to farmers on Friday – the largest number in a single day since the Depression. Page 19

ECOPETROL, Colombia's state petroleum company, is planning a fuel mix of 15 per cent sugar-cane alcohol with petrol.

BRITISH Petroleum received another setback in its attempts to restructure its 75 per cent-owned Australian mining subsidiary, Seltrust Holdings, when a legal challenge prevented minority shareholders accepting its proposals. Page 19

APPLE the U.S. personal computer group which has suffered a fall in profits in recent months, is streamlining its corporate structure and reducing the day-to-day role of Mr Steven Jobs, its chairman and co-founder. Page 17

SAATCHI & SAATCHI, the leading British advertising agency, is in talks which could lead to a merger of its Italian subsidiary with MVL, a Milan agency.

AIRBUS INDUSTRIE announced a contract to supply eight of its 150-seater A-320 airliners to the Australian airline Ansett. Page 5

Assad may propose congress of Lebanon rivals

BY TONY WALKER IN DAMASCUS

DETAILS are emerging of President Hafez Assad's comprehensive plan for a settlement of the long-running Lebanese civil war.

According to a well-placed Syrian source, President Assad is proposing a national congress of Lebanon's rival factions – possibly to be held in Damascus under his authority – to establish a committee to draw up a new Lebanese charter.

Representation at such a Congress would be divided equally between Christians and Moslems and would effectively mean an end to Christian domination of Lebanese institutions.

Under a convention following Lebanon's independence from France in 1942, Christians – who were the majority – hold key posts such as the Presidency and important ministries.

The other principal element of President Assad's grand design is that rival factions should sign a petition asking for Syrian troops to move into Lebanon and deprive armed militias of heavy weapons.

Syrians are saying this is the minimum condition for intervention by a deterrent force, but if fighting continues in and around Beirut's Palestinian refugee camps, Damascus may be forced to act sooner.

It seems significant that Palestine Liberation Army units – Palestinians under the command of the Syrian army – who were stationed near Tripoli in north Lebanon have been pulled back to Damascus awaiting redeployment.

There is speculation that these units may play a role in collecting weapons from Palestinian fighters in the camps in the event of a cease-fire agreement.

Palestinian groups in Damascus are adamant that their guerrillas will not hand their weapons to the Lebanese regular army whose mainly Shia Sixth Brigade has been involved in the siege of the camps alongside Amal Shia militiamen.

No details of the presidential discussions in Damascus last week have been released. Mr Amin Gemayel, Lebanon's President who is a Maronite Christian, now has the difficult task of persuading Lebanese Christian factions to co-operate in holding a national congress that would end their domination of government posts.

Of Lebanon's 4m people, 55 to 60 per cent are Moslem and 40 to 45 per cent are Christian.

Christian hardliners have engaged in a bitter struggle since the start of the Lebanese civil war 10 years ago to prevent alteration to the longstanding convention which enshrined Maronite primacy in Lebanon.

President Gemayel will be arguing that concessions are now necessary because there is no alternative if Lebanon is not to disintegrate completely.

A significant recent development in the Christian camp was the change of command in the mostly Maronite militia, the Lebanese forces. Mr Elie Hobeika, the new supremo, is apparently reconciled to an accommodation with Syria and all that it implies.

There is a suspicion in Damascus that the wire-guided rocket which slammed into President Gemayel's palace last week shortly before he was due to leave for his Damascus summit with President Assad was fired by a Christian dissident opposed to what some hardline Maronites regard as the capitulatory policies of the Lebanese leader.

It is not clear how soon President Assad proposes to hold a national congress to rewrite the ground rules for Lebanon, but according to Syrian sources it is "soon."

The immediate problem for both Syria and all Lebanon's rival factions, however, is the continuing bloodshed in Beirut between Shia Moslems and Palestinian guerrillas in the camps of Sabra and Chatilla and Bourj el-Brajneh, which is threatening to spread to other parts of Lebanon.

Until that bitter conflict is resolved, it appears that little can be done about political, constitutional and security reforms.

According to a Syrian source, President Assad "is not in a hurry" to send troops into Lebanon to benefit one or other of the rival factions. In this instance it would be the Shias who have, in any case, massively extended their power and influence in Lebanon since Israel's ill-advised invasion and occupation starting in June, 1982.

The view from Damascus appears to be that the Amal leadership of Mr Nabih Berri will first have to resolve the crisis in the camps before other steps are taken.

But the problem for the Syrians

Continued on Page 16

Airlines asked to help plan design of two new Airbuses

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT, IN PARIS

AIRBUS INDUSTRIE, the European aircraft manufacturer, has set up a small study group of major airlines to help it to define two new additions to the Airbus series of airliners – the twin-engined, short to medium-range TA-9, and the long-range four-engined TA-11.

The names of the airlines participating in the study were not disclosed, but one of them is believed to be Lufthansa of West Germany, while Pan Am of the U.S., which last week signed a $1.1bn deal for 28 Airbuses, may also join the group. All of the airlines are likely to be eventual customers for the two new types of aircraft.

No development decisions have yet been taken on either aircraft. All that Airbus Industrie is prepared to say at present is that they could enter service during the 1990s, according to market demand, and provided a large enough requirement justified the investment involved.

This could amount to up to $1bn for each aircraft, and the member governments of Airbus Industrie – the UK, France, West Germany and Spain – would have to put up a substantial volume of launching aid for each venture.

The TA-9 would be capable of carrying about 330 passengers over distances of 3,200 nautical miles. It would effectively replace existing three-engined jet airliners such as TriStars and DC-10s on short to medium-range routes, introducing twin-engined economy to this larger aircraft category.

The TA-11 is envisaged as carrying about 250 passengers over very long distances, upwards of 5,500 nautical miles. This would be suitable for the so-called "long thin" routes, where airlines require an aeroplane capable of flying long distances but without the large number of seats that have to be filled with today's Boeing 747 Jumbo jets.

Airbus Industrie said at the Paris Air Show over the weekend that the two new aircraft, when developed, would have the maximum number of common elements to keep down the development costs and reduce the Airbus Industrie investment in the new ventures.

One of the common elements would be an all-new wing that both aircraft would share. It would have an entirely new aerodynamic shape to give greater speed with less drag and improved fuel economy, and it would probably be designed and built by British Aerospace which already builds all the Airbus wings.

Other new developments envisaged would be improved cockpit layouts and flight control technologies to ensure that both aircraft were fully abreast of all advances in airliner design for the late 1990s and early into the next century.

Airbus for Australia, Page 5

Right set to renew attack in Greek poll

By Andriana Ierodiaconou in Athens

GREECE went to the polls yesterday to decide whether to vote for another four years of socialist rule, or to return the Conservatives to power. Results are not expected until late in the day.

The main competitors in the 1985 general elections are Mr Andreas Papandreou's Panhellenic Socialist Movement (Pasok), which came to power for the first time with a landslide majority in 1981, ending nearly half a century of right-wing rule, and the conservative New Democracy party, which is mounting a renewed challenge under the leadership of Mr Constantine Mitsotakis, a former Cabinet minister.

The dark horse in yesterday's electoral race was the pro-Moscow Communist Party of Greece (KKE) which won 11 per cent in 1981, and is now bidding to attract enough voters from the left fringe of Pasok to force the Socialists into a coalition in the event of a tie with the conservatives.

Predictions were difficult yesterday because of a lack of reliable opinion polls. But the result was expected to be determined to a large degree by the estimated 7 per cent of voters still undecided on the eve of the elections between the two main parties.

One of the many incalculables in yesterday's vote was the possible effect on the Greek public of a dramatic Friday night warning by Mr Constantine Karamanlis, former conservative president, not to vote left, or risk leading the country into domestic and eternal dangers.

Swedish Socialists lead opinion poll, Page 3

Reynolds and Nabisco agree $4.93bn merger

BY PAUL TAYLOR IN NEW YORK

R. J. REYNOLDS, the second largest U.S. tobacco group, and Nabisco Brands, the U.S. food and packaged goods group, yesterday agreed to a merger deal valued at $4.93bn to create the biggest consumer products group in the U.S. with annual sales of more than $19bn.

Under the terms of the agreed bid, Reynolds, whose cigarette brands include Winston and Camel and which owns Gallaher, the UK tobacco group, said it would begin an $85 a share cash tender offer for 51 per cent of Nabisco's 58m outstanding shares tomorrow.

It would complete purchase of Nabisco through an exchange of paper with a similar value for the remaining 49 per cent. The announcement ends several days of Wall Street speculation that a deal was imminent. Last Wednesday, Nabisco's shares were temporarily suspended before the company confirmed it was holding exploratory talks with Reynolds. The agreed bid is in line with Wall Street expectations.

The deal, if completed, would mark the latest in a series of recent multi-billion dollar mergers in the U.S. food and consumer products industry which include Beatrice's acquisition of Esmark and Nestlé's acquisition of Carnation. Based on the almost $5bn valuation of Nabisco implied by the proposed tender offer, it would also represent the biggest non-oil merger in history.

Nabisco, which reported net earnings last year of $308.9m on sales of $6.25bn, has reportedly been looking for a merger partner for some time. On Friday its shares closed up $2⅞ at $82⅝, a new 12-month high and more than double its $38¾ a share 12-month low. The group's shares, which gained more than 50 per cent in the first four months this year, shot up almost $11 a share in hectic trading last week.

The Reynolds takeover bid for Nabisco, which is the leading biscuit manufacturer in the U.S. and whose brand products include Oreo cookies, Ritz crackers and Bubble Yum Gum, is expected to receive a warm welcome on Wall Street because at $85 a share it represents about 15 times 1984 earnings and a very healthy premium over market value.

For Reynolds the deal appears to reflect its determination to become a consumer products powerhouse and lessen its dependence on cigarettes.

The group has recently been selling and buying assets in order to strengthen its consumer products division. Last year, Reynolds, which owns the Kentucky Fried Chicken fast-food restaurant chain and Heublein liquors, reported net earnings of $1.21bn on revenues of $12.97bn.

Reuter adds: Mr J. Tylee Wilson, 53, chairman and chief executive officer of Reynolds, will hold the same posts in the expanded company.

Chirac puts emphasis on cuts in tax and state role

By David Housego in Paris

FRANCE'S neo-Gaullist movement, the largest of the opposition parties, has confirmed its further shift to the right by adopting a Reagan-style electoral platform of tax cuts and deregulation to revive economic growth.

At a special congress outside Paris at the weekend, 4,000 delegates from the RPR agreed on a draft manifesto for next March's parliamentary elections that would include action within six months to lift price and exchange controls, make it easier for companies to declare redundancies, privatise industries nationalised in 1982 and cut taxes by FFr 40bn ($425.9m).

M Jacques Chirac, the Mayor of Paris and leader of the RPR told his supporters that it would be suicidal for the opposition to propose a continuing period of austerity and deflation. He said the Gaullists were proposing 10 "shock" measures to inject fresh dynamism into the economy by breaking the "corset of taxation and regulation that is strangling it."

M Chirac said that governments must first decide the amount of taxation a country was prepared to pay and then to deduce from this the level of public expenditure.

The congress was called to define the Gaullist's position before next weekend's gathering of the parliamentary opposition parties which intends to lay the basis for their joint campaign leading up to the March elections. It was held at a time when M Chirac had been losing ground politically both to the extreme right-wing National Front, led by M Jean Marie Le Pen, and to the centre of M François Léotard.

The Gaullists' conversion to Reaganomics – although in line with the general consensus in France towards more liberal policies – has paradoxically come at a time when Mr Reagan in the U.S. and Mrs Margaret Thatcher in Britain are experiencing disenchantment with their policies.

While emphasising the need for unity among the opposition, M Chirac held his distance from M Raymond Barre and M Valery Giscard d'Estaing – his potential rivals for the presidency. M Chirac said the Gaullist programme marked a break both with the Socialists and with the conservative "dirigism" that marked the last years of M Giscard d'Estaing's presidency.

If the Right gained a majority in the National Assembly next year, the Gaullists would be the most powerful element in a new govern-

Continued on Page 16

Order books in UK industry expand to record levels

BY MAX WILKINSON, ECONOMICS CORRESPONDENT, IN LONDON

ORDER BOOKS in UK industries reached record levels last month according to a survey of manufacturing companies by the Confederation of British Industry (CBI), the employers' body.

The generally optimistic picture of the British economy was supported yesterday by a report from the London Business School's centre for economic forecasting on the world economy.

This predicted that the present slowdown in world activity would be "no more than a pause in the recovery which began in late 1982." The centre says that lower U.S. interest rates and a continued weakening of the dollar will enable the U.S. economy to recover from its recent weakness in output.

"The prerequisite is a realistic set of measures to cut the U.S. budget deficit. In our view these are now in train and the weaker dollar, which we are already seeing, together with lower interest rates, should permit a resumption of growth both in the U.S. and elsewhere in the second half of the year."

A fall in the dollar would not only aid the U.S. but would help interest rates outside the U.S. to fall. This would assist Europe and Japan, where domestic demand was at present weak.

Answers to the CBI's monthly trends survey show that order books in the UK continued the steady pattern of improvement which started last September. In May, the 1,596, companies in the survey said that total order books were on average about "normal." Since 1977, when the monthly survey was introduced, a balance of companies have consistently reported order books to be below normal.

Although expectations of future output have moderated since March and April, they remained at a higher level than in the second half of last year. Strongest order books were reported in the chemicals, electrical and instrument engineering industries.

The survey also suggested that price increases are likely to moderate over the next few months, reflecting the improvement in the exchange rate since February.

The balance of companies expecting to raise prices over the next four months was 26 per cent, the lowest response since September last year.

A balance of 21 per cent of companies expected output to rise in the four months from May, compared with balances of about 27 per cent in the previous two months. However, the May result was closely in line with those recorded in surveys at the turn of the year, and significantly better than those from last summer.

Companies continue to say that their stocks are more than adequate. The 10 per cent balance reporting excessive stocks in May was similar to results in previous surveys during the last year.

In a special article in a CBI economic report today, it is estimated that UK competitiveness improved further in the first quarter of this year, although the improvement is ascribed to the effect of the exchange rate

CONTENTS

International	2, 3	Eurobonds	17, 19
Companies	19	Financial Futures	34
World Trade	5	Int'l Capital Markets	17, 20
Britain	11, 12, 13	Letters	15
Companies	22, 23	Lex	16
		Lombard	15
		Management	21
		Men and Matters	14
		Money Markets	34
		Stock markets – Bourses	28
		Wall St	24–27
Arts – Reviews	6	London	32, 33
– World Guide	6	Technology	7
Crossword	29	Unit Trusts	29, 30, 31
Currencies	34	Weather	16
Editorial Comment	14		

Technology: banking on an electronic future 7
U.S. taxation: Reagan deals a clever hand 14
Editorial comment: United States; Britain 14
Milan summit: Mrs Thatcher wins again 15
Lombard: OECD funding on capacity 15
Lex: a crossroads in Throgmorton Street 16
Management: a need to cultivate customers 21
India: Survey: .... Section III

John Elliott on fears on the anniversary of the Golden Temple battle

Sikhs threaten to take revenge

INDIA'S MOST extensive security operation for many years has been mounted in the capital of New Delhi and in northern states to prevent violent attacks during a Ghalugharia — or week of genocide — called by Sikh extremists to commemorate the army takeover a year ago of their Golden Temple headquarters in Amritsar.

Sikh terrorism is posing serious problems for the Indian Government, and unusually tight security will accompany Mr Rajiv Gandhi, the Prime Minister, when he leaves on Wednesday for a two-week foreign tour which will include visits to France and the U.S.

The U.S. Federal Bureau of Investigation recently uncovered a Sikh plot to assassinate Mr Gandhi while he is in the U.S. next week. Security experts have flown from India this weekend to vet the protection that is being provided abroad. Canada and the UK have been asked to stop Sikh militants crossing into neighbouring U.S. and France.

In India a massive security operation has been set up to try to curb Sikh extremists striking back this week in vengeance for the 1,000 Sikhs killed during the Golden Temple battle which started a year ago tomorrow.

India's border with Pakistan has been closed and it is being closely guarded by para-military security forces. Pakistan is believed to be harbouring para-military security forces.

Observers estimate that over 100,000 troops and police have been stationed in Punjab where thehre are believed still to be over 2,000 terrorists despite massive army action during the past year aimed at rounding up all dangerous extremists.

At the end of last week four Hindus were killed in two Sikh attacks, and there are reports that Hindus are preparing to strike back, which would cause serious communal violence.

In New Delhi senior police officers are bracing themselves for sporadic bomb attacks at any time following bombings three weeks ago which killed more than 80 people.

They have arrested37 out of 45 to 50 Sikhs believed to be responsible and are comparing the problems they have to face with the difficulties posed in London by irregular IRA attacks.

Both the police and senior Government ministers seem to be reluctantly accepting that the security crisis in the Punjab, and the risk of terrorist attacks in Delhi and elsewhere, may continue for a long time.

Prospects for a settlement some time in the future of the Punjab's economic and political issues which lie behind the crisis have improved with the reinstatement during the past few days of Mr Sant Harchand Singh Longowal and two other moderate Sikh leaders, at the head of the Sikh's Akali Dal political party.

The three had resigned after a new figure appeared at the top of Sikh politics—Mr Baba Joginder Singh, father of Mr Jarnail Singh Bhindranwale, the leading extremist who was killed in the army battle a year ago.

Mr Joginder Singh emerged from obscurity a few weeks ago as a figure-head leader of the most militant Sikhs but has not been able to hold his ground against moderates who persuaded Mr Longowal and his colleagues to return to their old posts.

But Mr Joginder Singh, and the militant youth he leads, remain a major stumbling block to a peaceful solution in the Punjab.

Mr Rajiv Gandhi, Indian Prime Minister, was yesterday asked by president Junius Jayawardene of Sri Lanka to help solve the island's growing internal security crisis, writes John Elliott in New Delhi.

As the first-ever talks between the two leaders got under way in New Delhi, reports arrived from Sri Lanka that extremists had killed at least 7 people in raids on villages of the majority Sinhalese population near the north-eastern city of Trincomalee.

In attacks on a police station and Naval camp in Trincomalee, several policemen and 30 naval personnel were killed, according to spokesmen for the main extremists' organisation, the Tamil Tigers.

Mr Gandhi and Mr Jayawardene had more talks during a six hour flight to and from the cyclone hit areas of Bangladesh. They will meet again this morning.

Mr Jayawardene is being urged by Mr Gandhi to do more to solve his island's ethnic problems which are based on claims by the Tamil minority race for some form of devolution or independence in their northern and eastern areas.

U.S. move on Mideast divides Israeli Cabinet

BY DAVID LENNON IN TEL AVIV

THE possibility that the U.S. may soon hold talks with a joint Jordanian-Palestinian delegation on ways to renew the pease process in the Middle East has divided the Israeli Cabinet.

Some ministers fear this will lead to back door recognition of the PLO by the U.S. and have demanded that Jerusalem immediately informs Washington that Israel opposes this development.

Speaking after the Cabinet meeting yesterday Mr David Levy, a deputy premier and Housing Minister, said "It is de facto, back door recognition of the PLO."

He demanded an immediate reply by Israel rejecting what he called the contradictory position taken by the U.S.

But in an effort to prevent an open rift within the national unity government Mr Shimon Peres, the Prime Minister, urged restraint until it is known which Palestinians will participate in the talks.

The moves by the U.S. emerged in a message which Mr Peres received on Saturday from Mr George Schultz, the U.S. Secretary of State. In the message he said that Washington will move in the coming weeks to hold preliminary discussions with such a delegation.

This follows the visit to the U.S. last week by King Hussein of Jordan, whose declaration about his willingness to enter into peace talks was described in the Schultz message as a step forward in the peace process.

Mr Yitzak Shamir, the vice premier and Foreign Minister, said yesterday that he does not consider anything positive came out of King Hussein's visit to the U.S. Mr Shamir said King Hussein has only added obstacles to peace negotiations by calling for an international conference.

He also rejected American suggestions that Israel should take part in negotiation with members of the Palestine National Council, who are not members of the PLO. Mr Shamir stressed that the PNC is a part of the PLO and that the leadership of the PLO is elected by the PNC.

Red Cross evacuates 29 from Beirut refugee camp

BY NORA BOUSTANY IN BEIRUT

THE International Committee of the Red Cross yesterday evacuated 29 wounded from the besieged and crowded Palestinian refugee camp of Bourj al-Barajneh as accounts filtered out of severe food and water shortages.

It was the second evacuation in two days. On Saturday, the ICRC managed to bring out 32 seriously injured fighters and civilians. Since the fighting started two weeks ago between Shi'ite militiamen and Palestinian guerrillas seeking to re-establishe their military power in Lebanon, the Red Cross has organised successfully only three rescue missions in Bourj al-Barajneh, the largest of the three Palestinian camps on the edge of Beirut.

Conditions inside were described as miserable with the residents eating cats and dogs and drinking from the sewers.

Angry Shi'ite militiamen milled around the Red Cross convoy of six ambulances as officials of the Shi'ite Amal movement and Swiss delegates argued about guarantees for the convoy's safety.

On Saturday, after militiamen searched one of the ambulances, a routine procedure, a young man, visibly weak from his wounds, was pulled out and questioned. Amal insisted he was "Lebanese" and did not have to go with the others.

Hospitals in west Beirut are not considered safe for Palestinians, where the dominant Shi'ite militia is in control. All of the 93 wounded transport out of Bouj al-Barajneh since May 28 have been taken to hospitals in the Druze-held mountain town of Chweifat

Yesterday five of the Palestinian casualties were pulled out and one was seen having his bandages and intraveinous tube ripped out by militiamen at the exit of the camp. They were then returned after the ICRC representatives protested to Amal officials

Before it started, a hail of sniper bullets sprayed passing cars just west of the camp entrance. At the end of yesterday's mission the explosion of shells could be heard after the convoy had left for the Kamal Jumblat hospital in Chweifat.

OVERSEAS NEWS

Inflation 'remains the key problem for Sweden'

BY KEVIN DONE, NORDIC CORRESPONDENT, IN STOCKHOLM

SWEDEN HAS still not found an effective means to stop erosion of its international competitiveness over the medium term and to avoid a devaluation cycle, the OECD claims in its latest economic survey on the country.

The Organisation for Economic Co-operation and Development says that the control of inflation remains the key problem for Swedish economic policy.

The report, published today, was compiled before the Government was forced to respond to Sweden's deteriorating economic position three weeks ago with an emergency package of monetary and fiscal measures which forced interest rates up to the highest real level in Europe.

The OECD also says that "sustained efforts" must be made to bring down the budget deficit further and pave the way in the long run for reducing the tax pressure.

Sweden has the biggest public sector and the heaviest tax burden of any of the industrialised countries. The OECD says that the tax pressure would seem in several respects to distort resource allocation in the Swedish economy.

The OECD accepts that the economic strategy pursued by the Social Democratic Government since it was returned to office in September 1982 – chiefly the 16 per cent devaluation of the krona in October 1982 – has "improved Swedish economic performance in several respects relative to the sluggish trends prevailing in the 1970s and early 1980s."

Industrial production fuelled by rapidly growing exports has regained the ground lost since 1974; business profitability has increased sharply and several structural imbalances have been eased. At the same time unemployment has been kept at a very low level compared with other countries.

The OECD is clearly sceptical however about whether such progress can be sustained. "That these gains have not yet been consolidated is in part reflected in a continued unfavourable development of Sweden's relative inflation performance," it says.

The OECD says that measures taken over the past year to try to control prices and labour costs – chiefly the 5 per cent wage costs guideline agreed with unions and employers and the imposition of a price freeze – are not likely to be effective over longer periods.

The OECD forecasts weaker economic growth in both 1985 and 1986, but says that room for adjusting economic policy accordingly is extremely limited. "Continued fiscal retrenchment is clearly necessary," it says.

Socialists take lead in Swedish opinion poll

By our Nordic Correspondent in Stockholm

SWEDEN's socialist bloc, the ruling Social Democrats and the Communists, are leading the opinion polls for the first time in a year.

The latest Sifo poll, less than four months before September's general election, gives the two Socialist parties 49.5 per cent of the poll compared with 48.5 per cent for the three centre-right opposition parties.

The Social Democrats are in a minority in the Riksdag, the Swedish parliament, but have a majority with Communist support.

The poll was conducted amid two events which were expected to seriously damage the Social Democrats' chances of re-election—the three week civil servants' strike and the imposition of a severe credit squeeze to halt soaring imports.

The Sifo pollsters said support for the Social Democrats did appear to be declining towards the end of the latest poll period, but Mr Olof Palme, the Prime Minister, seems to have gained public support for his secret intervention during the strike which paved the way for a settlement.

The election campaign is increasingly polarising into a fight between the two main parties, the Social Democrats and the Swedish Conservative Party, both of which improved their standing in the latest poll—the Social Democrats to 44.5 per cent and the conservatives to 30.5 per cent.

For the Social Democrats the May poll was the fifth month running that they improved their position from their lowest ebb since the end of 1984.

The traditionally important Centre of the Swedish political spectrum is increasingly being squeezed and both the Centre and Liberal Parties have lost ground.

Kohl faces coalition dissent on SDI

BY PETER BRUCE IN BONN

THE FREE Democrats (FDP), junior partners in the right-of-centre Bonn coalition Government served notice this weekend they would oppose any attempt by the West German Government to give priority to the U.S. Strategic Defence Initiative (SDI) over strengthened research co-operation with France, which has rejected invitations to participate in SDI.

Resolutions adopted at a policy making committee meeting of the FDP in Neuss yesterday make it quite clear that the FDP regards Bonn's partcipation in the French-inspired Eureka technological project as far more important than winning SDI contracts from the U.S.

The weekend meeting is likely to make it even more difficult for Chancellor Helmut Kohl to continue trying to please both Washington and Paris with promises of support for both projects.

Differences between Herr Kohl and French President Francois Mitterrand over SDI which were not resolved at an extraordinary summit between the two men in southern Germany last week, have placed enormous strains on Herr Kohl's attempts to achieve closer ties with the French as a prelude to revitalising European unity, a notion he cherishes.

Herr Hans Dietrich Genscher, Foreign Minister and former leader of the FDP, said after the meeting in Neuss it was important that Germany remained "fully independent of SDI."

"We are convinced," he said, "that French willingness to build up the closest co-operation with us in all areas represents a great moment for Europe that one cannot allow to pass."

The FDP, while not rejecting participation in SDI out of hand, has delivered probably the most positive remarks on Star Wars.

Herr Martin Bangemann, Economics Minister and new leader of the FDP, said the party's conditions for agreeing to participation in SDI remained the insistence on equality of partnership, two-way technology transfer, a joint European approach and no automatic leap from the research phase of SDI into an operational phase.

Given that the U.S. is not asking the Europeans to fund SDI research, a number of observers here believe the FDP position amounts to an outright rejection of SDI. The weekend conference repeated fears already expressed by Herr Genscher that space weapons could destabilise the existing balance of power, based on earth-bound weapons, and made war between the super clearest signal yet on the subject to Herr Kohl from within the coalition. The Chancellor has seemed in the past two months to vacillate between caution and outright support for President Reagan's Star Wars plans.

The U.S. leader's recent visit here coincided, not surprisingly, with the German Chancellor's powers more, rather than less, likely.

Marcos may seek U.S. help against rebels

PRESIDENT Ferdinand Marcos said yesterday the Philippines might have to call for U.S. military help if communist rebel insurgency becomes too great, Reuter reports from Manila.

"If the integration of aid and foreign-trained troops is so massive that it is the equivalent to outright attack, then we may have to ask for the help of allied troops as provided for in the mutual defence pact," he said in a statement. It is believed to be the first admission by President Marcos that he might need outside help to crush the insurgency.

The presidential palace issued the statement after published reports of an interview which quoted him as saying he might ask the United States for combat troops if communist insurgency got out of control.

The statement did not refer specifically to U.S. troops, except to mention the mutual defence pact.

However, palace officials said that under the defence pact, "the Philippines and the United States would come to each other's aid, in accordance with their constitutional processes, in the case of external aggres-

PSD holds meeting vital to Portuguese coalition

BY DIANA SMITH IN LISBON

THE FUTURE of Portugal's troubled centre-left Government hinges on the outcome of today's meeting of leaders of the Social Democrat Party (PSD), controversial junior partner in the two-year-old coalition.

The PSD executive will give its final response to an ultimatum issued by Sr Mario Soares, the socialist premier, to either actively work in the coalition until 1987 — and not back a hostile candidate in the December presidential elections — or shoulder full responsibility for a split that would have grave political consequences.

In a move aimed at unloading blame for any breakdown onto the PSD, whose repeated leadership crises have plagued Portuguese governments since early 1981, Sr Soares says he has no intention of resigning and has thrown the ball into the PSD court.

The crisis erupted last week after it transpired that the latest PSD leader, Sr Anibal Cavaco Silva, a hard headed young economist, who is on the right in his party, strongly favoured aligning the PSD behind a conservative contender for the presidency, the former Christian Democrat leader Professor Diogo Freitas do Amaral.

This angered Sr Soares, who has presidential aspirations himself

Today's meeting is likely to be stormy. Not all the PSD executive favours a breakdown, or an alignment with a conservative presidential candidate.

A split in the coalition will be damaging to the economy, which is just picking up after two years of austerity and still needs judicious control.

Spain's economic plans hit by rise in inflation

THE SPANISH Government's economic strategy, already hit by lower than planned growth forecasts, received a further blow with the weekend publication of price rise figures for Tpril that confirm a continued high inflationary trend.

The consumer price index rose by 1 per cent in April to give an accumulated increase of 4.3 per cent so far this year and a 10.2 per cent inflation rate over the past 12 months.

From January to December 1984 Finance Minister Sr Miguel Boyer's strict austerity programme had brought inflation down to 9 per cent, the first time Spain had returned single digit end of year inflation since the middle 1970s.

Sr Boyer's target of a 7 per cent inflation rate from January to December 1985 now appears chimerical and a return to the psychologically onerous double digit inflation by December is increasingly likely. Finance Ministry officials say they will not be revising the 1985 inflation target until the second quarter price index figures are published.

The Government's strategy has been buffeted in the past fortnight by the annual report of the Bank of Spain, the Central Bank, which forecast a GDP growth of under 2 per cent this year against a 3 per cent growth planned by Sr Boyer, and by depressing unemployment statistics. The jobless

The prospect of increasing inflation is fuelled by measures taken by Sr Boyer in April to boost slack domestic consumption. The finance minister ordered cuts in personal income-tax worth $600m. The introduction of VAT on January 1 will have an inflationary impact that will be anything between 2 per centage points by Sr Boyer's calculation and up to 7 points according to the estimates of independent economists.

Iran and Iraq in counter attacks

Iran and Iraq pounded each other's towns and cities in air, missile and artillery strikes yesterday as the latest flare-up in the 56-month-old Gulf war entered its second week, Reuter reports from Bahrain.

Iran said its aircraft and artillery attacked military and industrial targets in 15 Iraqi towns in reply to Iraqi raids on Iranian civilian centres.

AT & T hit by change in long distance calls system

BY PAUL TAYLOR IN NEW YORK

THE U.S. Federal Communications Commission (FCC) has voted unanimously to change the system for allocating customers who fail to elect a long distance telephone carrier for their calls. The move, which will assign these customers to a carrier in the same proportions as those who do make a choice, could have far reaching effects on the fiercely competitive U.S. long distance telephone market.

The decision appears to be a major blow to American Telephone and Telegraph (AT & T), the giant telecommunications group which, under the previous system, was assigned by default all customers who failed to choose a long distance carrier. Under the so-called—equal access—provisions which are being introduced in the wake of the Bell System break-up

The FCC's move, which it said was needed to stimulate the less than impressive growth of competing cut-price long distance carriers, appears to be a major victory for MCI communications and AT & T's other rivals.

The new order will affect some 75m telephone customers —roughly half the national total—most of whom will be asked to choose a long distance carrier between now and August 1986. AT & T's cut price rivals bad complained bitterly that the previous default system was unfair. In a 5-0 vote the FCC appears to have accepted this view.

The importance of the decision is apparent from the size of the U.S. long distance telephone market, which is still dominated by AT & T despite the growth of MCI, GTE Sprint and other carriers. According to some Wall Street estimates, 1 per cent of the long distance market is worth between $400m (£310m) and $500m.

Stable Irish interest rates expected

By Brendan Keenan in Dublin

THE IRISH central bank's decision to allow banks to set their own rates is not expected to result in an early change in Irish interest rates.

Instead, the move is seen as a significant step towards the long-term aim of breaking up the existing bank cartel and allowing greater competition.

The Irish authorities are moving cautiously and the new regime — which is similar to that which has operated in the UK for many years— will be reviewed after six months. The central bank will also set a base rate below which interest rates will not be allowed to go without its approval.

Under the previous system the four Irish clearing banks asked the central bank for approval to change their rates when they felt it necessary and all maintained the same rates.

Brazilian summit tackles domestic and IMF strategy

BY ANN CHARTERS IN SAO PAULO

PRESIDENT JOSE SARNEY'S first economic summit, held at the week-end with selected Government ministers and economists, debated current Government strategies on Brazil's external debt, IMF negotiations, and domestic economic policies, Finance Minister Sr Francisco Dornelles said yesterday.

Sr Dornelles said measures to control inflation and reduce the public sector deficit were discussed but declined to reveal details on divisive issues, saying only that the meeting brought "the participants closer together and an exchange of ideas could only help those who had to make decisions.

The lack of details about the meeting frustrated those who had hoped the summit would yield a clear public definition of the new government's economic directions and whether the finance or planning ministry would control future policy.

Instead the nine-hour meeting appeared to be a tutorial for Sr Sarney on the complexities and costs of alternative economic policies, as well as being an opportunity to bring together respected economists of divergent views. Sr Sarney reportedly closed the meeting with the words "all decisions are mine."

Talks resume today between the government and International Monetary Fund officials after bogging down last week over a definition of the public sector deficit. The finance ministry places the deficit at Cruz 85 trillion (roughly $15.4bn or £12bn) but other observers put the figure closer to Cruz 65tr.

After last week's talks the IMF team has been accused in the press as being unrealistic

Poland devalues by 16.8% to the dollar

POLAND devalued its nonconvertible zloty at the weekend by 16.8 per cent to the dollar and 14.3 per cent to the Soviet rouble. The dollar now stands at zlotys 159 and the rouble at zlotys 88, writes Christopher Bobinski in Warsaw.

The official dollar price is still some way from the black market rate which oscillates around 600 zloty. The government is keen to boost exports, especially to hard currency markets where sales have flagged this year.

After four months Poland's hard currency exports were 5.6 per cent down on the same period last year and the hard currency surplus, which is crucial if Poland's external debt is to be serviced with any success, stood at $245m (£189.9m) compared with $470m at the end of the first four months of 1984.

Garcia takes on twin burden

SOCIAL Democrat Sr Alan Garcia, proclaimed Peru's first president-elect, faces twin problems of a sagging economy and a communist guerrilla war, Reuter reports from Lima.

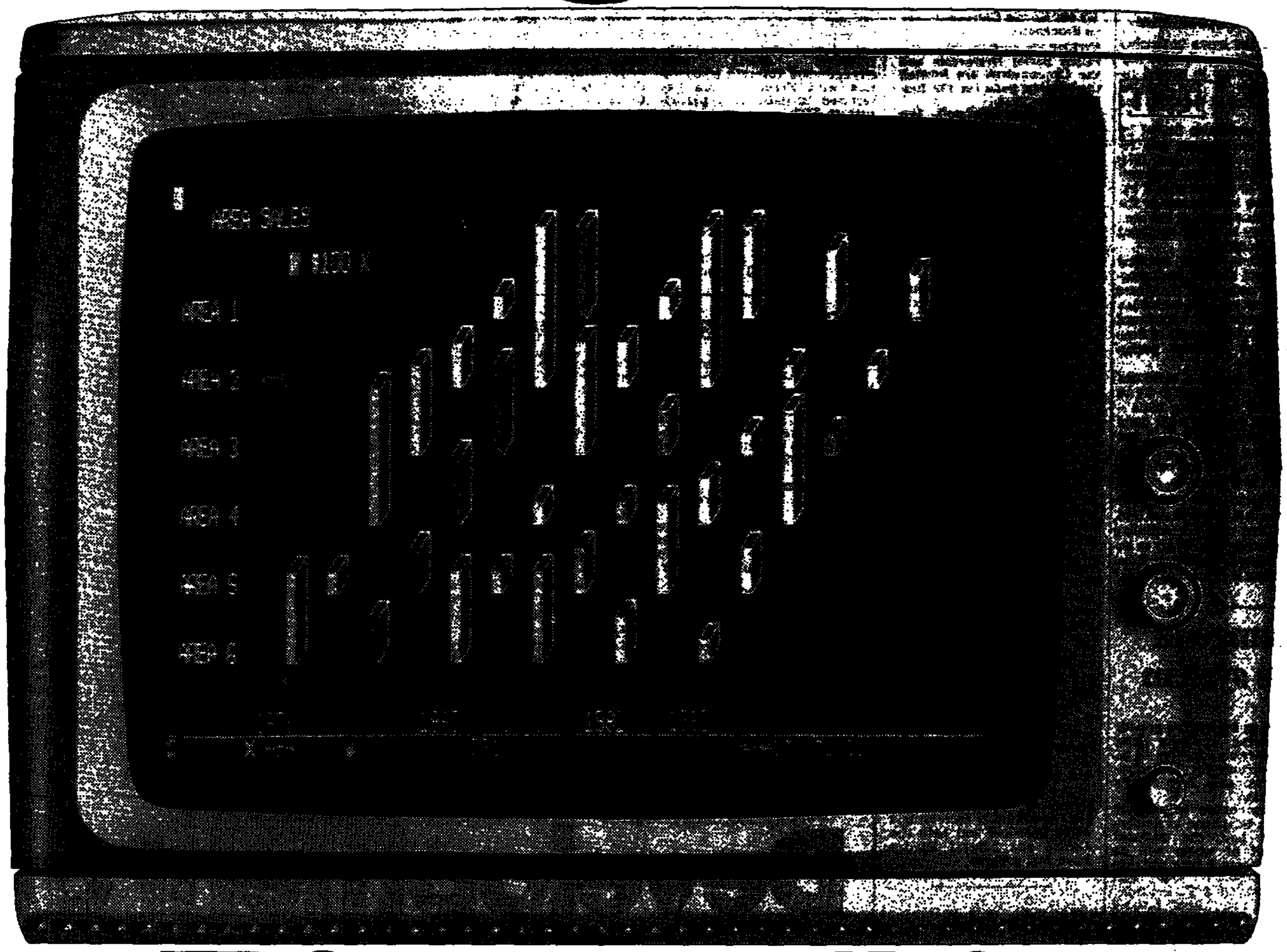
The electoral board said at the weekend that Sr Garcia, at 36 Latin America's youngest leader, would take over from conservative President Fernando Belaunde Terry on July 28 after a Marxist rival decided not to contest a run-off.

Sr Garcia won 45.74 per cent of the vote in April but failed to get the outright majority to avoid a second round. Marxist Sr Alfonso Barrantes took 21.26 per cent.

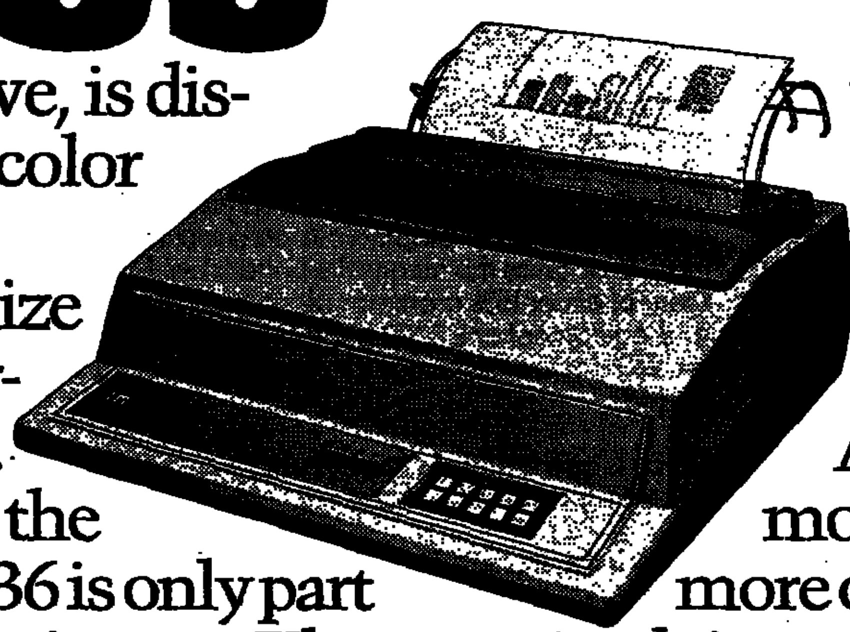
The new president will face the problem of an anti-government war by the Maoist Sendero Luminoso (Shining Path) guerrillas which has killed more than 6,000 people in five years and left 26 of Peru's 170 provinces in a state of emergency.

Sr Garcia will also face Peru's serious foreign debt, estimated at $13.5bn (£10.4bn).

The Big Picture.

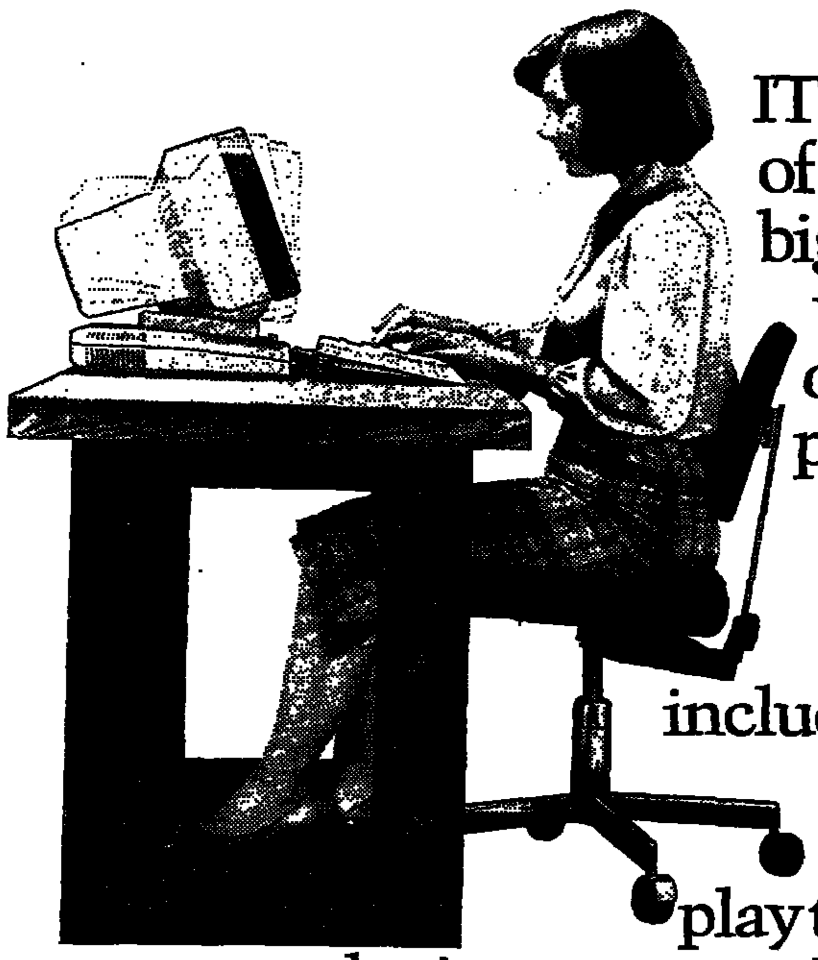


The Bigger Picture.



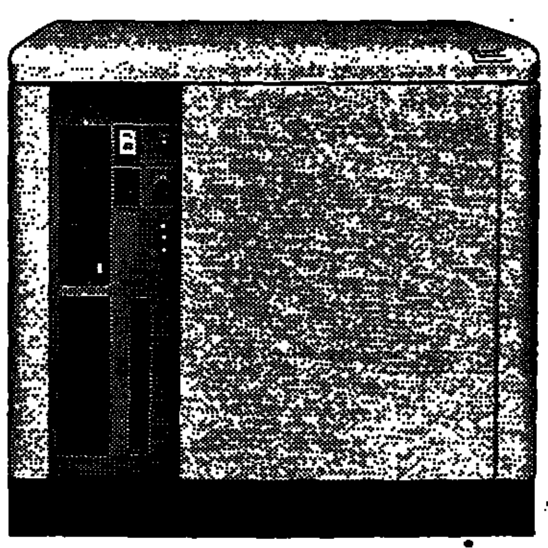
The big picture, above, is displayed on the ITT 9236 color display terminal.

Which lets one organize business data in big, colorful, easy-to-read graphics.



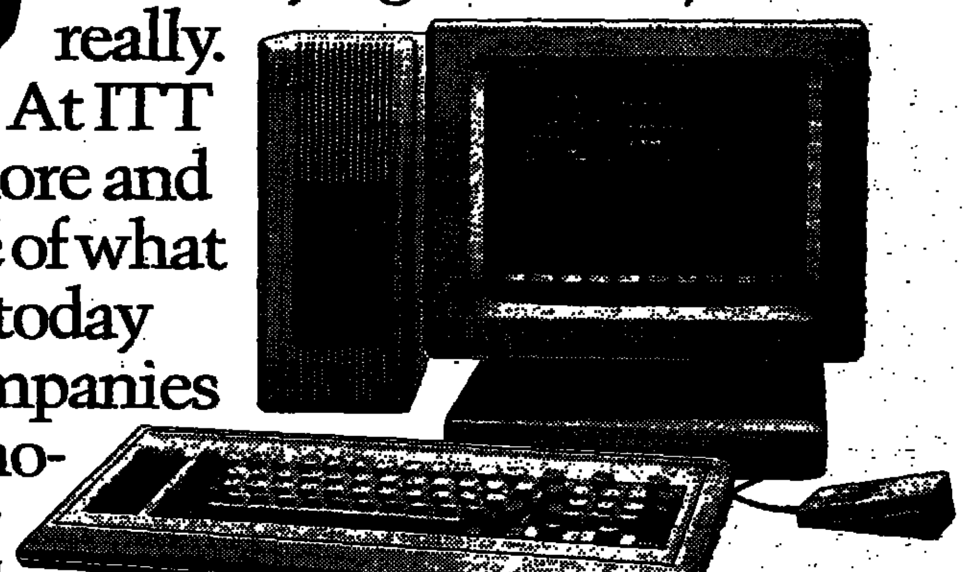
But the ITT 9236 is only part of the picture. The bigger picture is the whole 9000 series of display terminal products from ITT.

This family of products includes everything from display terminals and printers, to our ITT XTRA™ Personal Computer.



It includes something else: a variety of highly sophisticated technologies.

And that's the point we're trying to make, really.



At ITT more and more of what we're doing today involves companies in high technology, or other growing fields.

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WORLD TRADE NEWS

Australian airline orders eight Airbus A-320s

BY DAVID MARSH IN PARIS

AIRBUS Industrie, the European airliner manufacturing consortium, has chalked up fresh orders for its new 150-seater A-320 aircraft, with a firm contract for eight of the aircraft announced at the weekend with the Australian airline Ansett.

Ansett, owned by Thomas Nationwide Transport and Mr Rupert Murdoch's News Corporation, will take delivery in 1988 or 1989. It also has placed nine optional orders for the A-320—formally launched in March 1984 by the four-nation consortium—to 75, with the same number of options.

M Jean Pierson, the Airbus chairman, told a Press conference that the eight firm orders, together with spare parts and support equipment, were worth about $365m (£292m).

Most of the aircraft will be used on domestic routes, although some will fly on Ansett's international operations.

The A-320 will make its entry into service in 1988 as part of Airbus's bid to widen its range of planes in response to competition from U.S. manufacturers.

The Ansett order—which follows confirmation last week that Pan American World Airways is buying 12 wide bodied A-310s and 16 A-320s—marks the first time that a company from the Asia-Pacific region has opted for the narrow-body plane.

Sir Peter Abeles, co-chairman of Ansett, said the order was signed last month in Sydney. M Pierson said Airbus could announce other deals during the Paris air show, which continues until next weekend.

● The Dutch aircraft manufacturer Fokker has sold four of its new Fokker 50 passenger props to Norwegian regional operator Busy Bee in a deal worth Fl 120m (£28m), Reuter reports.

The company said the aircraft would replace the Fokker F27 Mark 100 aircraft already in service with the airline. Busy Bee carries out flights for the Norwegian Defence Ministry and is a sub-carrier for the main Scandinavian airlines.

The order brings sales of the new Fokker 50 to 25 aircraft from three airlines, with options on a further six sales.

Westland and Agusta start talks on joint helicopter

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

WESTLAND of the UK and Agusta of Italy, two of Europe's leading helicopter manufacturers, backed by their governments, have begun negotiations on a common programme to develop a light attack helicopter, designed for the future requirements of the British and Italian armies.

The multi-billion dollar programme aims to produce a helicopter system to meet both armies' needs over the next 10 to 20 years for anti-tank, anti-helicopter, scout and other roles. The aircraft will be based on the Italian A-129 Mongoose helicopter.

The programme is the first result of a Memorandum of Understanding signed by the two companies about a month ago, which seeks closer collaboration on helicopters between Westland and Agusta.

The two companies are already collaborating on the development of the multi-billion dollar EH-101 anti-submarine warfare helicopter which is expected to be one of Europe's major helicopter programmes.

But in addition to the EH-101 and now the A-129 programmes, Westland and Agusta believe much benefit can be gained from even closer collaboration on other programmes.

They have therefore begun a review of their respective marketing sales and customer support organisations, to see if they can rationalise them more.

As part of this plan the existing joint Westland-Agusta company, EHI, set up to run the EH-101 programme, has established a marketing division in Milan to direct Westland and Agusta's activities in the worldwide marketing, sales and support of the EH-101 itself.

Another company, EHI Incorporated, has been formed in the U.S. to pursue sales of the EH-101 there.

Mr Raffaello Teti, chairman of the Agusta group, announcing the new agreement at the Paris Air Show at the weekend, stressed that the extension of collaboration in Europe did not reflect any lack of desire for collaboration with the U.S.

World Economic Indicators

FOREIGN EXCHANGE RESERVES (US$m)

	Mar. '85	Feb. '85	Jan. '85	Mar. '84
U.S.	7,041	6,301	6,270	6,817
Japan	22,479	22,302	22,544	20,921
W. Germany	32,097	33,139	34,203	40,945
UK	7,020	6,415	6,739	8,788
Italy	16,737	17,705	19,080	17,317
Belgium	3,716	3,731	3,629	3,662
Netherlands	7,371	7,222	7,624	9,387
	Feb. '85	Jan. '85	Dec. '84	Nov. '84
France	19,502	19,102	19,102	17,505

Source: IMF

Hong Kong optimistic on U.S. textiles Bill

By David Dodwell in Hong Kong

RESTRICTIVE textile import legislation being put before the U.S. Congress is likely to attract a presidential veto and is unlikely to win majority support in the Senate, Mr Verrick French, Hong Kong's textile lobbyist, said in the British territory at the weekend.

The Bill, talked of as the Jenkins Bill because it is being drafted by Mr Ed Jenkins, a Georgia Democrat who is chairman of the Congressional textile committee, would, if passed in its present form, cut textile and garment imports from most Asian exporting countries back to 1983 levels.

Mr Donald Tsang, Hong Kong's deputy director of trade with special responsibility for the U.S. market, said recently: "It is the worst piece of legislation we have ever seen. Our level of concern is very high."

It comes in the wake of sweeping new "country-of-origin" laws introduced last autumn which were seen as a response to protectionist lobbies in the U.S.. Hong Kong knitwear manufacturers say these changes alone will cost them HK$3bn (£300m) a year in lost orders.

Apart from Hong Kong, whose textile and garment exports would be cut by about 13 per cent if 1983 volumes were re-imposed, other Asian exporters would be severely hurt by the Jenkins Bill, Mr French said. Emergent exporters like China would have sales cut by 65 per cent from present levels, while Indonesia would face an 85 per cent cut, he claimed.

A further irritant to Third World textile manufacturers is that the Jenkins Bill specifically excludes exporters from the European Economic Community and Canada, which together account for more than half of U.S. textile and garment imports.

Mr French said supporters of the Jenkins Bill were spending about $500,000 (£400,000) a month lobbying Congressmen to back the legislation.

Mr French has been lobbying on behalf of exporting countries, as well as sympathetic groups in the U.S. — including retailers, exporters of farm products, and U.S. consumers who face higher garment prices if the legislation is enacted.

He said Mr Jenkins was likely to win necessary majorities in the House of Representatives, but that he would probably not press his bill through the Senate, where success seems less likely.

The Hong Kong Government paid Mr French an initial HK$ 1.6m to campaign on its behalf in the U.S. There has been some opposition inside the Hong Kong Government to such spending, and Mr French's visit to the territory was seen in part as an attempt to convince the Administration that it is money well spent. A new contract is soon to be finalised.

EEC considers U.S. steel proposal

BY QUENTIN PEEL IN BRUSSELS

EEC considers US steel proposal by Quentin Peel in Brussels — A NEW U.S. proposal setting the conditions for allowing extra imports of steel pipes from the EEC will be presented to the 10 member states this week, following high-level weekend talks in Washington.

The plan was brought back to Brussels yesterday by Mr Willy de Clercq, the European Trade Commissioner, who promised an answer by the end of the week to his U.S. counterpart, Mr Malcolm Baldrige, the Secretary for Commerce.

The only official comment on the talks made by both sides was that "considerable progress" had been made to end the long-running dispute over the import of at least 110,000 tonnes of pipes for the all American oil pipeline being built from Texas to California.

These pipes, for which French and West German companies have contracts, would be in addition to the quota agreed last December for U.S. imports of EEC pipes and tubes, set at 7.6 per cent of the U.S. market.

The EEC claims that U.S. producers cannot fulfil the demand and that under the terms of the quota agreement. Therefore it should be permitted to increase its exports to the U.S. The U.S. has been seeking to put extra conditions on its approval of imports in excess of the quota limits.

The U.S. proposal is understood to link all three elements in the omnibus package sought by the U.S. but hitherto resisted by the Community:

● Recognition of the EEC demand to give effect to a "short supply" clause in the pipes and tubes agreement, because of the inability of the U.S. industry to meet the oil pipeline's needs;

● The American demand for an early renegotiation of the 1982 carbon steel agreement, which expires at the end of this year;

● The parallel U.S. demand to include an extra 17 steel products in that negotiation, including semi-finished products.

Mr de Clercq will put the plan to the permanent representatives of the Ten in Brussels on Wednesday, with provision for calling an emergency meeting of industry ministers in order to give a firm reply by the end of the week.

Stewart Fleming in Washington adds: Following the negotiations, the Commerce Department issued a statement saying that considerable progress had been made and that officials had agreed to talk again this week.

Some officials are suggesting that in spite of the progress there is still some way to go to narrow the areas of disagreement

UK minister urged to raise copyright issue in Singapore

BY OUR SOUTH EAST ASIAN CORRESPONDENT

MR Paul Channon, British Minister of State for Trade, is being pressed by British book and music publishers to raise the controversial issue of copyright protection whe he visits Singapore on June 26.

The visit is part of a trip organised to follow up Mrs Margaret Thatcher's whirlwind south east Asian tour in April. The trip has already taken on added importance with his inclusion of Thailand, where a Leyland-led consortium is trying to clinch a £385m bus contract.

As a major producer and exporter of pirated music, software and books, Singapore is causing losses to these industries worth hundreds of millions of dollars, principally because of its inadequate safeguards for "intellectual property."

The strongest condemnation so far has come from the U.S., most recently from Mr Lionel Olmer, under-secretary at the U.S. Department of Commerce.

A year ago a U.S. delegation of government officials and industry representatives accused the Singapore government of tolerating "blatant larceny."

The UK has hitherto adopted a lower profile in making its views known.

Now, it seems, pressure is building for a stronger public stand. Even in Singapore the International Chamber of Commerce has spoken up strongly in support of legislation.

The Singapore Government is drafting a copyright law, but this seems unlikely to be enacted before next year. The draft, which could be completed by the end of the month, must still be submitted to the Law Ministry and to a special copyright committee before going to parliament.

It is also unclear at this stage when, or even whether, Singapore will accede to international copyright conventions. It is thought the island state may try instead to arrive at "bilateral" arrangements with other countries.

Australia moves to boost south east Asian ties

BY CHRIS SHERWELL IN SINGAPORE

AUSTRALIA has sharply raised its trade profiile in south-east Asia through a visit to Indonesia, Singapore and Thailand by Mr John Dawkins, the country's new Minister for Trade.

The visit, the first by an Australian trade minister to the region in several years, will be followed by trips to Malaysia and the Philippines later this year, and underscores Australia's growing appriciation of south-east Asia's economic, political and strategic significance.

Indeed, Australian Cabinet Ministers have a standing instruction from Mr Bob Hawke, the Prime Minister, to increase contracts in the region and to make a point of stopping off to visit their counterparts whenever returning from trips further afield.

In Jarkarta, where he met President Suharto, Mr Dawkins urged Indonesia to take greater advantage of Australia's developing countries' preference scheme, which gives duty free or concessional access to Indonesian goods in the Australian market.

In textiles, clothing and footwear, he said, Indonesia's share of a A$2bn (£1.05bn) market was only A$10m. He added that generaly the size of the Australian market open to international suppliers had increased by 15 per cent in the past year.

In Singapore, which is Australia's largest south-east Asian market, Mr Dawkins indicated strong Australian interest in joint ventures with Singaporean partners to tap the vast Chinese market now opening up. The idea is a pointer to Singapore's potential role as a gateway to China.

Collectively, the six countries of the Association of South East Asian Nations (Asean) — Singapore, Indonesia, Thailand, Malaysia, the Philippines and Brunei — are Australia's fourth largest trade partner. Singapore itself is one of the largest investors in Australia after Britain and Japan.

SHIPPING REPORT

Trampships suffer slow month, says broker

By Joan Gray

MAY WAS a disappointing month for trampship owners, according to broker Matheson (Chartering).

Drycargo rates in the Western hemisphere, which had shown belated signs of seasonal improvement in the previous two months, began to tumble.

Lower grain rates on the important routes from the U.S. Gulf to North Europe and the Far East were attributed to an increase in the permissible Mississippi draft and the bigger cargo listings possible.

The softer tone in the north and south Atlantic basin was largely a reflection of reduced Soviet pressure and the decline in demand which usually occurs in midsummer.

There was no change in the Far East, where conditions continued difficult for trampships, and it was not unusual to wait for days for cargo.

Long-haul business out of the area was especially scarce, and owners often had to accept local trading around China, Japan and Korea. But after perhaps only 15 days owners were back in the same depressed market.

Ericsson deals

L. M. ERICSSON, the Swedish telecommunications and information systems group, has won several mobile telephone orders worth $24m (£19.2m), David Brown writes in Stockholm.

The largest, valued at $20m, involves turnkey delivery of switching equipment, base stations and terminals to Perrumpel, the Indonesian public telecommunications administration, and several private buyers.

THE ARTS

Architecture/Colin Amery

Struggles at the Royal Academy

Architecture at the Royal Academy has *improved its* presence. You can see the large silvery model that dominated the centre of Gallery 6 from the moment you reach the top of the stairs. It is encouraging *that this year the mother of* the arts has regained her place at the heart of the exhibition.

Passing through the central hall on the way to the architecture room do not miss the group of paintings by the late Meredith Frampton. His surreal calm and his understanding of formal composition are a good preparation of architecture. His *accuracy had the power* to disturb and his sense of the face of things — that which we present to the world — was uncanny in its perception.

Architecture is a hard thing to exhibit for public enjoyment. Architects are only showing the face of their work by exhibiting it in two dimensions. Even the architectural model — and there are some brilliant examples in this year's exhibition — displays a misleading sense of scale. The room this year is full, 137 exhibits selected by a hanging *committee that included three* architect academicians; Leonard Manasseh, Sir Philip Powell and H.T. Cadbury Brown, the Royal Academy Professor of Architecture.

It is a good display, redolent with the confusion of the present architectural debate, but curiously satisfying because you can sense the intensity of the effort that is now going into the recovery of England's built world.

Let me deal immediately with the central exhibit by the architect Richard Rogers. It is a £30,000 model of the entrance area of the new Lloyd's. Like the building *itself it is gleam*ing with polished stainless steel and has the air of an oil refinery. I have never much cared for the Pompidou Centre in Paris by these architects because it is such a horrible place inside—a grim environment for looking at pictures. But that was a long time ago and Lloyd's is undoubtedly a better example of the same genre.

In order to create a dealing room three times larger than the present one at Lloyd's Rogers pursued his one constant *idea of removing all the service* elements of his architecture to the edges of the site and freeing the centre for large, clear, uncluttered spaces. This is a radical and difficult idea because it must increase the size of what architects call "the external envelope." Imagine all the lifts, lavatories, staircases, plumbing and ventilation of *your house hanging on the out*side walls and you will have grasped the concept behind a Rogers edifice.

There is no doubt that the outside of Lloyd's looks complex and eccentric, particularly its roofline with silvered Portakabins and cranes that look temporary but are, in fact, permanent.

Inside, the great atrium with an arched and glazed roof on Crystal Palace lines will undoubtedly be a striking sight, a commercial cathedral, American in spirit and English in the wish to show the world how complex its details are. Lloyd's will get 520,000 sq ft (gross) for £135m—new crystal palaces do not come cheap. It will open in 1986.

The R.A. shows a later example of British high technology with the large and glittering model of Michael Hopkins's proposals for the enclosure of Basildon Town Square. Half the pleasure of looking at this is that it lights up and has the kind of mechanical charm of the space models in the Science Museum. To cover up a shopping square and impose upon it the aesthetic of technology is *an interesting and provocative* idea. Could a similar arcade roof be flung over the horror of Oxford Street with the traffic removed? The trouble with technological glamour is that it works best on sites where you can start from scratch.

Both Richard Rogers and Michael Hopkins would enjoy the fine drawings from the office *of Donald Insall showing* the restoration and repair of the magnificent conservatory at Alton Towers.

The Mr Abraham employed by the 15th Earl of Shrewsbury to embellish his landscape gardens at Alton in Staffordshire designed a conservatory that evoked the fantasies of the *Arabian Nights* beneath its seven glass *domes. How telling* it is to see how technology and the ideas of the Picturesque combined in the first half of the 19th century to produce such magical places as Alton. It is glorious news that restoration is underway.

It should be noted that this year's room demonstrates the gradual improvement in the level of architectural drawing. John Outram's Isle of Dog's Pumping Station is a powerful *drawing and at a gentler level* I liked the drawings and ideas of Jeremy Till, Peter Hull and the elegant decorative drawings of Martin Nash.

We hear a great deal about *pastiche and imitation of the* past in the architectural debate at the moment and it is worth pointing out that some of the exhibits in the R.A. continue to display the weakness of this approach. For example there is a drawing by Julian Bicknell of an organ case for Magdalen College, Oxford, that is not as good as the average level of work *turned out by Edwardian firms* of church furnishers in 1910.

There are houses and libraries that are about the standard of the work of that Victorian entrepreneur, Captain Fowke. If it is original ideas you are looking for they are few and far between. But the struggle is on display and occasionally it is triumphantly resolved. English architects, like some of the Academy painters, have got to ensure that they don't drown in the clichés of the 1860s — times have changed and real talent is still scarce.

Così fan tutte/Covent Garden

David Murray

At the Royal Opera *Così fan tutte*, in John Copley's much-revived production, has had its ups and downs. This time, with a *very* good team of principals, Graziella Sciutti has been enlisted as "co-producer." Herself a famously bright and vivacious Despina, Miss Sciutti has had a palpable effect on the *physical style of the goings-on.* There is more comedy and less farce, livelier posturing and less knockabout, an exuberant range of gesture: some of the arias are almost as much danced as sung. It is perhaps a little busy, but it has a consistent impulse—and in the right direction.

Colin Davis conducts, excellent Mozartean that he is, with affection and verve. (Momentary lapses of ensemble were instantly forgotten: Sir Colin's first nights are not reliably tidy.) He had the benefit of a devoted Prom audience, always a tonic, for this Così was the last evening of the Covent Garden Prom week sponsored annually by the Midland Bank. *The passages of the score which* are virtually chamber music were dwelt upon with special tenderness.

Alastair Muir

Anne Howells and Margaret Price

Margaret Price's Fiordiligi unbent graciously amid the general high spirits, but so far as to compromise her great set-pieces: "Come scoglio" of fiery dignity, a noble "per pietà" that exposed a whole character. Francisco Araiza's Ferrando matched her in a melting "Fra gli amplessi," and if his tone is a little darker and drier than before he still etched his "Aura amorosa" most delicately. Anne Howells, plainly determined to make as much of flighty Dorabella as possible, more or less succeeded: the *determination was over-visible,* but the witty insights she lavished on her music were real and serious.

As Guglielmo, Russell Smythe moderated his jocular histrionics as the evening went on. He allies good musical sense to an interesting baritone timbre, though he made *Sprechstimme* of too many recitatives. (As usual with non-Italian casts, the recitatives are anyway rarely quick enough.) The suave Don Alfonso is Richard Van Allan, too urbane to be much involved. *The actual Despina* is Lillian Watson, very charming; the Sciutti *persona* flickered often in her gestures, but the Watson soprano is warmer and less fine-lined—Sciutti's elegant insolence is not quite her style. And, by the way, the Notary's marvellously funny and touching music deserves to be sung, not croaked.

Home/Shaw

Michael Coveney

The Negro Ensemble Company were welcome guests at last year's Edinburgh Festival with *A Soldier's Play*, source of the recent film. They return with a much less compelling piece, similarly old-fashioned, by Samm-Art Williams. A pitifully sparse turn-out at the Shaw on Friday night was yet another indictment of the organisational fiasco also known of the American Festival.

Home tells the story of Cephus Miles, a cotton-picking farm hand in North Carolina who leaves his native cornfields and hog pens for the big city life. He refuses the Vietnam call-up and languishes in jail for five years. Branded a Communist for "spitting on the flag" he drifts into alcoholism and drugs, sweeps floors and shines shoes. Washed up and cleaned out, he takes the Greyhound Bus back to base where his childhood sweetheart, newly and conveniently divorced in Richmond, Virginia, has secured the deeds on his old folks' land. This cornball happy ending is dramatically weak but in line with the overall sentimental drift of the whole.

Mark Twain and Salinger, rather than Steinbeck, come to mind. The most vital passages struck me as the early ones about pitching dice on white men's graves (smoother than the black memorials) and succumbing to a little revivalist salvation in order to sneak under a sweetheart's dress. The jokes are fine, if a little cosy. The naive poetic outbursts are faintly embarrassing.

On a bare platform stage, timbers silhouetted against a changing sky, the acting trio of Samuel L. Jackson, Elain Graham and S. Epatha Merkerson cannot be faulted. The latter two ladies play girlfriends, relatives, hookers, stone-faced welfare officers and even bus drivers with some brio and much style. Mr Jackson as Cephus, lithe and lanky, is an instantly sympathetic performer, whether blithely passing himself off as a Philadelphia smoothie, urgently buttonholing us with another vaguely interesting anecdote about unknown old-timers, or painfully consuming the news about changing times back on the old homestead. A decent enough show but nothing to indicate a great surge in black American playwriting.

Naked in the Bull Ring

B. A. Young

Seen at Birmingham Rep, this is the third part of a trilogy but you do not have to know the first two to follow the drift.

We learn from throw-away references that a firm making locks once run by George Newman has been taken over by his son, who has taken it to Northern Ireland and out of the play. All that remains of it is George (John Burgess) the ageing head of the family, sitting at a new computer with the mistaken idea that he can use it to the firm's advantage.

We are left only with family affairs. There is friction between George's wife Connie (June Barrie) and his 90-year-old mother, who has had a fall and becomes increasingly senile. The old lady, played to the life by Margery Withers, resents Connie because she remembers that during the war when George was in the army, Connie had a fling with his brother Len, her favourite, that resulted only in a stillborn child. She asserts her resentment by adding disgusting extras to the natural dirtiness of extreme old age.

This enmity is extended throughout the play by her reluctance to tell anyone about this old affair. What occupies the foreground is the problem of what to do with her—or with any old lady unable to look after herself but unwilling to go into a home to be cared for. Miss Withers, though she plays a very nasty old woman, managed to win my sympathy, for the rest of the family are pretty nasty too.

All else in the family portrait is decoration. *Len* (Raymond Mason), pays a couple of short visits, talks about his pills and his Railcard, and shows no recollection of his 40-year-old love.

The talk is commonplace family talk, the everyday lines, as the author admits in the programme, of his own family existence.

It is more expertly played under John Dove's direction than it deserves. There is a great reversible set by Di Seymour, showing the interior of the Newmans' bungalow, the "other room" one way round, the "front room" the other way round. You can do this sort of thing on the Birmingham Rep's enormous stage. You cannot show anyone naked in the Bull Ring, Birmingham's shopping centre. The old lady dreams she was, but she was only delirious.

Aida/Coliseum

Rodney Milnes

John Copley's 1979 production of *Aida* was the last ENO spectacular—perhaps the last ever. Stefanos Lazaridis's classic designs are duly sumptuous yet never lose sight of the work's sombre message: their massiveness is oppressive as well as spectacular. The production has been carefully revived by Mr Copley himself and still looks marvellous; after last season's fiasco at Covent Garden, this intelligent and true staging is all the more to be treasured.

The revival has also been imaginatively cast — indeed vocally the show has never been stronger. Marilyn Richardson, the Australian soprano making her belated London debut in the title role is, in a word, sensational. When did we last hear a real Aida voice like this, whether in the theatre or on record? Full and creamy of tone and technically utterly secure, her athletic soprano is even from a *house-filling top C down* to a darksome chest register with no suggestion of gear-change.

All that is lacking on this *showing—if one may be hyper*-critical in the face of such abundant talent—is a genuine *pianissimo*: the final duet was a little stentorian given the treacherous C in the Nile aria—although approached honourably—didn't quite come off. It will, and in general Miss Richardson's hugely accomplished *singing was an occasion* for drop-jawed wonder.

Alastair Muir

Margreta Elkins and Marilyn Richardson

Tenors who can sing Radames do not grow on trees either, and in the Brazilian Eduardo Alvares the company has found one with appropriate military sounds in plenty; sadly there is a beat to go with it, occasionally of a width that might be deemed a wobble, but Mr Alvares defeated it by time for the last two acts, and relaxed into some pleasing soft singing. He acts enthusiastically.

Like all the principals Margreta Elkins, returning to London after a spell in her native Australia, projects the words clearly, and she relishes Amneris's *Dynasty*-style skullduggery in the second act more than the barnstorming of the fourth, where the orchestra was too much for her: hers is an honest, quietly satisfying reading.

Neil Howlett repeats his crisply sung, horribly implacable Amonasro, there is an auspicious house debut from John Connell as Ramfis, and an ideally secure Priestess from Jane Eaglen. Mario Bernardi's conducting has masses of dramatic thrust and just enough expansion; orchestra and chorus were at their best for him on the first night. This is an excellent revival.

Woman in Mind/Scarborough

Martin Hoyle

Those of us who have detected demonic presences lurking on the back lawns of Alan Ayckbourn's suburbia are vindicated. *His new play at Scarborough's* Stephen Joseph Theatre in the Round begins as *The Secret Life of Walter Mitty* as bored Susan escapes from her dreary marriage into *fantasising* wish-fulfilment; adds a dash of *Blithe Spirit* when she baffles her everyday companions by addressing the apparently invisible presences; and turns into *a suburban Exorcist with inti*mations of diabolic possession, the desperately isolated heroine left gibbering on a darkening stage.

*All of which is unfair to Ayck*bourn who remains uniquely Ayckbourn; though his latest look at the tragi-hilarious frustrations, inarticulacies and uncommunicative cross-purposes of the middle classes has moments on automatic pilot. There is a touch of the mechanical TV sit-com formula in such running gags as a whining in-law's *culinary disasters* or the (60-page) booklet on parish history that has absorbed the energies of Russell Dixon's blandly evasive vicar for years.

To compensate for the absence of comic set-pieces or stabbing social observation we get a deeper and raker foray into typical Ayckbourn territory: the intelligent and imaginative woman driven into solitude by the obtuse incomprehension of those around her.

Just Between Ourselves and *Absent Friends tipped* the victim-figure into near-catatonic withdrawal and breakdown respectively. Here, following a blow on the head, middle-aged Susan copes by creating a *phantom family, white-clad and* graceful: Robin Herford's still-passionate husband, enunciating the idiom of better-class romantic fiction ("We'd all be lost without you . . . I love you more than words can ever say"); a younger brother whom John Hudson turns into a sportingly gilded youth from Dornford Yates; and an adoring daughter whose blond prettiness Caroline Webster makes as sinister as the children's ambivalent innocence in *The Turno of the Screw.* The contrast with Susan's real husband —Mr Dixon at his most stockily prosaic—and dependent sister-*in-law—Heather Stoney,* all scrawny *Schadenfreude*—rightly cues a black-out of horror and disgust.

As in a dream, the imagined family absorbs *elements* from reality: the daughter assumes the scholastic brilliance that Susan unconsciously envies in the children of her bumbling doctor, for instance. But they begin to arrive uninvited, interfere, take over, reveal themselves as parts of Susan herself. "Who are you?" she cries to the perfect lover she *thinks* she has created: the sudden darkness glows with the demon-king's traditional red in one of those presentiments of evil that cast an early evening chill over so many golden Ayckbourn afternoons.

Echoing that most underrated of Ayckbourn's recent plays, *Way Upstream* — a journey to the heart of darkness on a violently chaotic river-trip—reality and fantasy mingle, the comedy underpinned by an almost Calvinist conviction of rigidly-ordained damnation and *grace.* The climax is a nightmare jumble of shattered fragments of reality juxtaposed into a surreal mosaic. A fantasy wedding turns into a race-meeting. The white-clad spectacle (even topper and tails are pristine) becomes nonsensical, inconsequential, a Fellini dream-sequence *(Susan of the Spirits?).*

This fascinating play confirms the author's recent preoccupation with the darker side of human nature. It will disappoint admirers of the peerless clown; but in place of frenetic comic virtuosity we have a sardonic comment on where desperate escape-routes from painful reality can lead us. Some compassion, much pessimism; the usual fine teamwork under the author's own direction. Pleading not to be forgotten, Ursula Jones, the woman in mind, is haunting in her final garbled cries of "December bee! December bee!" as the world fades into blackness.

Arts news in brief . . .

Jane Lapotaire will play Joan in Shaw's *Saint Joan*, and Anthony Quayle will play Prospero in *The Tempest* in *Compass Theatre Company's* national tour of both productions. It starts this September with a three-week engagement of *Saint Joan* at the Theatre Royal, York.

The Prudential Assurance has increased its sponsorship to £25,000, and Rank Xerox is providing an overdraft facility.

*

The International Jazz Federation has announced details of the Fourth IJF jazz competition to be held at Leverkusen, Germany, from October 9 to 13.

Entries are invited from young jazz groups in Europe. (All members must be below the age of 30.) An international jury will select up to six groups to take part in the competition on the basis of cassette recordings submitted by each group. The groups selected will be invited to perform during the 6th Leverkusen Jazz Days festival. The jury will nominate one group as European Young Artists 1985. They will receive an award an dan additional prize of DM 5,000.

Full information from the IJF, 13 Foulser Road, London, SW17 8UE.

British groups have won the last two competitions. In 1983 it was Macondo and last year the quartet First House took first prize.

*

London Festival Ballet is to give the world première of Ronald Hynd's *Coppelia* on Tuesday July 2 at the London Coliseum at a charity gala to benefit the Save the Children Fund and the LFB Development Trust.

Principal dancers will be Festival Ballet's artistic director Peter Schaufuss (Franz) and Eva Evdokimova (Swanilda) with Niels Bjorn Larsen as Dr Coppelius.

The production has been made possible by £85,000 worth of sponsorship from Barclays Bank, and £25,000 from the Government's Business Sponsorship Incentive Scheme.

Arts Guide

Music/Monday. *Opera* and **Ballet**/Tuesday. *Theatre*/Wednesday. **Exhibitions**/Thursday. A selective guide to all the Arts appears each Friday.

Music

May 31 – June 6

LONDON

Royal Philharmonic Orchestra conducted by Antal Dorati with Nathan Milstein, violin. Bach and Brahms. Royal Festival Hall (Tue). (928 3191).

Handel Opera Chorus and Orchestra conducted by Charles Farncombe with Elizabeth Vaughan soprano and Ryland Davies, tenor. Arias and choruses. Queen Elizabeth Hall (Tue). (928 3191).

London Symphony Orchestra conducted by Omri Hadari with Andrew Haigh, piano. Rossini, Vaughan Williams, Grieg and Beethoven. Barbican Hall (Tue).

Northern Sinfonia conducted by Richard Hickox with John Lill, piano. Beethoven. Barbican Hall (Wed).

Jacques Loussier trio. Back to play Bach. Royal Festival Hall (Thur).

The King's Consort with Emma Kirkby. Vivaldi, Corelli and Geminiani. Queen Elizabeth Hall (Thur).

London Symphony Orchestra conducted by James Paul with Santiago Rodriguez, piano. Mendelssohn, Beethoven and Tchaikovsky. Barbican Hall (Thur).

PARIS

Jose Carreras Recital (Mon). Théâtre de l'Athénée (742 6727).

Orchestre de Paris Mozart Festival with Daniel Barenboim as conductor and piano soloist (Mon, Wed). Salle Pleyel (561 0630).

Paul Kuentz choir and orchestra: Bach Magnificat (Tue). Saint-Severin Church (563 7480).

Orchestre National de France conducted by Seiji Ozawa, Martha Argerich, piano: Berlioz, Chopin, Beethoven (Thur). Théâtre des Champs Elysées (723 4777).

Perspective 2: Ensemble Intercontemporain conducted by Peter Eotvos with Yumi Nara, soprano, Elisabeth Laurence, contralto (Wed, Thur). Centre Pompidou, Grande Salle (260 9427).

Quatuor Arcana, Ensemble Orchestral de Paris soloists: Brahms, Schubert (Thur), Salle Gaveau (563 2030).

WEST GERMANY

Berlin, Philharmonic: The New York Philharmonic Orchestra, conducted by Zubin Mehta. Mahler and Bach (Mon).

The Berlin Philharmonic orchestra conducted by David Zinman. Gluck, Mozart and Dvorak. Soloist is Alfred Brendel (Tue, Wed).

ITALY

Rome: Auditorium Via della Conciliazione: Carlo Maria Giulini conducting Verdi and Beethoven (Mon and Tue). Giuseppe Sinopoli conducts Mendelssohn and Schubert (Thur). (654.10.64).

NETHERLANDS

Amsterdam, De Meervaart (Osdorpplein 67). Throat singers and drum dancers perform traditional Inuit music from northern Canada (Mon, Tue). (107393).

Amsterdam, Tropeninstituut (Mauritskade 63). Korean court and folk dance music performed by an ensemble from the National Classical Musical Institute, Seoul (Mon). (923189).

Amsterdam, Kleine Komedie Theatre. Blue's blue and Kantrimusik by Mauricio Kagel, with the composer conducting the Festival Ensemble with soloists and vocalists (Wed). (240534).

Amsterdam, De Ijsbreker (Weesperzijde 23). The Canadian Electronic Ensemble of Toronto (Wed, Thur). (681805).

VIENNA

Baroque Concert with Gundi Klebel, soprano, and Christa Pesendorfer, harpsichord, Bach, Bernhards Kapelle (Tue and Wed).

Leipzig Chamber Orchestra conducted by Kurt Masur with Philipp Eisenberg, harpsichord. Dessau, Bach and Beethoven. Konzerthaus (Wed), with Gidon Kremer, violin, and Yo Yo Ma, Cello. Brahms (Thur).

WASHINGTON

National Symphony (Concert Hall): Conductor, Mstislav Rostropovich; violinist, William Steck: Bach, Brahms, Copland (Tue); conductor *Mstislav Rostropovich: Wagner*, Mahler (Wed, Thur). Kennedy Center (254 3776).

CHICAGO

Chamber Players of Chicago (Orchestra Hall): Beethoven, Brahms, Mozart (Wed-545). (435 8122).

Saleroom/Antony Thorncroft

The best of British

Anyone who missed out on the modern British pictures auctioned at Sotheby's last month has another opportunity on Friday when Christie's offers some equally impressive works. This is one sector of the art market where prices have lagged behind critical re-appraisal, and compared with *the Impressionists, post-Impres*sionists, and even High Victorian pictures, the best items seem remarkably cheap.

Among the artists coming back into fashion is Sir George *Clausen, and a very typical* scene of rural realism. *The midday rest*, which shows a woman suckling her child by a hay rick, should approach the £50,000 mark.

Another British school in favour is the Camden Town, with *The Hat Shop*, by Sickert, likely to sell for £20,000; *Camden Nude*, by Spencer Gore, for up to £30,000; and *Snow in Bloomsbury*, by Charles Ginner, for around £15,000.

High fashion portraits are not yet in great demand so a painting by one of the leading artists in this field, Sir John Lavery, looks cheap with a £12,000-£18,000 estimate: it is of a girl, in a red dress, reading by a swimming pool, and was included in the recent Lavery exhibition in Ireland.

Augustus John was so prolific that his works have never commanded the prices his talent justifies and an interesting *Composition gothique* might only make £5,000. A Mark Gertler still life of flowers, once in the collection of Mrs J. B. Priestley, also looks cautiously estimated at around the same sum. Lowry and Paul Nash, *Glyn Philpot and David* Bomberg are all included, along with the old regulars, Munnings, Montague Dawson and Russell Flint.

The Earl of Bradford, in his battle to meet death duties, is having to sell his collection of Dutch engraved glass — at Christie's tomorrow. This is unusual in not being a family heirloom—the young Earl has built up the collection in the last few years. It was a good time to specialise in Dutch glass and the 70 lots should raise in excess of £250,000, with a goblet by Frans Greenwood, with an engraving of a woman selling fish, carrying the top estimate of up to £20,000.

Sotheby's is holding its annual nautical sale on Wednesday. American buyers will be interested in Napier's painting of *The Confederate Armed Cruiser "Shenandoah" engaging enemy ships in action*, signed and dated 1865: it should exceed a £80,000 top estimate.

TECHNOLOGY

EDITED BY ALAN CANE

Banking on an electronic future

Alan Cane examines a different approach to bank automation

"TOMORROW'S banking hall today" would be a fair description of much of the new electronics for retail banking now being marketed by the major suppliers.

There are few surprises. Most of the devices now on offer have been anticipated in a thousand pictures of the shape of the banking hall of the future, painted by prophets of electronic banking over the past few years.

But if these devices—counter terminals, customer terminals, banking workstations — are much of a muchness, there are clear differences between manufacturers in the underlying philosophy of office automation.

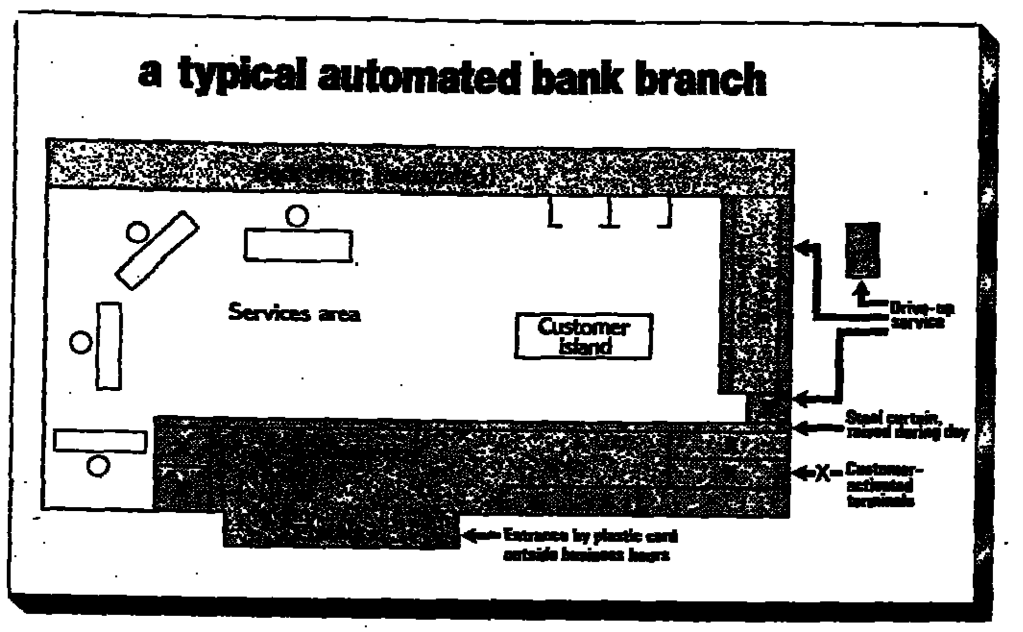
Philips, for example, places emphasis on the use of a branch controller, a small but powerful minicomputer based in each branch controlling all the devices in that branch together with communications to other branches and head office.

Burroughs, which today announces a new family of banking products under the general title, Financial Systems Architecture, takes a different approach.

All its banking machines are basically personal computers (or workstations, as it likes to think of them) with special pieces of hardware added to turn them into teller terminals, customer terminals and so on.

The branch system is therefore built up of personal computer building blocks, any one of which can be designated the controlling computer.

Burroughs argues that this makes for greater reliability at low cost, since control of the system can be switched to any of the other workstations in the branch should the controlling workstation fail, a facility not available to those with a single dedicated branch controller.



However, Dr Richard Horsnell, managing director of Philips Business Systems in the UK, points out: "Fortunately, we are nowadays able to guarantee 99.9 per cent reliability—in effect, military standards of performance."

Burroughs is, in one sense, re-entering the retail financial services market and a little late at that. Philips, Olivetti and IBM are already ahead in installing this new generation of banking products. Olivetti and Philips, in particular, have made strong sorties into the building society market. Both have show branches up and running — Olivetti in Aalborg, Denmark, as long ago as November 1982, Philips in Sveavagen, Sweden.

Burroughs has been and still is a major player in retail financial services technology; its front office terminals were ubiquitous in the early days of electronic banking.

Mr Stuart Law, international marketing manager for Burroughs financial products, explains that the new architecture has been in development since 1982, based on the premise that the traditional financial services branch would be increasingly under threat.

The competitive pressures include traditional opponents like other banks and near-banks, but increasingly retailers, mail order houses, new financial services and new delivery methods.

But the banks have the advantage of an established network of branches which they can exploit in offering additional services including insurance, stocks and shares, travel, real estate and custom financial packages.

That does, however, raise questions about the ability of branch management and staff to change from an essentially passive role to become sales- - - The need for electronic assistance is clear, but everybody agrees it is not an instant panacea.

Dr Catherine Smith, in *Retail Banking in the 1990s*, quotes suppliers as saying: "In banks, the lack is not in technical development staff. The lack is in productive development staff and sales staff. The marketing staff in banks are not sufficiently attuned to the product requirements of the customer base. As a result, they rarely specify the functions to which customers will respond.

"The technical staff, far removed from the front line customer contact, are often left to decide the functions which their equipment will perform."

Mr Law believes the banks are set to invest heavily in technology to provide better conventional services for the counter and the various offices of the branch and to provide new services.

To do this, the equipment will have to be able to provide a local branch information file with electronic profiles of the branches' customers on-line.

There will have to be integrated word and data processing and all the most sophisticated management aids — spreadsheets, models, graphs, expert systems.

Some services will have to be operated by the customer.

The traditional banking counter will disappear and be replaced by open banking halls with cash dispensers and terminals enabling customers to query accounts and pay bills.

Mr Law argues the best way to achieve this is to replace the traditional teller terminal and data-entry terminal with an intelligent multi-function workstation.

The smallest branches might need only two such workstations — the larger, up to 12 in any one system.

Burroughs' candidate for the all-important multifunction workstation is its B25 microcomputer, developed by Convergent Technologies.

With a 130 megabyte fixed disk added, each B25 can become the branch processor.

The system can also feature automatic encryption through a plug in "black box" containing all the electronic wizardry to code and decode messages.

With the widespread use of this generation of systems from Burroughs, Philips, Olivetti and so on, technology for the financial services market will have reached a new level of maturity.

Heat-saving device that pays for itself

BY ROB GOLDING

FERRANTI managers in Edinburgh can tell you that non-stick frying pans were not the only spin-offs from the U.S. space programme.

They are spending £15,000 on a development funded by the U.S. National Aeronautics and Space Administration, that should save them at least that amount on their fuel bills this year.

The technology is the heat pipe which, although widely understood in the thermal efficiency business, has not until now been used in everyday industrial applications.

The engineer responsible for its development was Mr Hugh Scurrah who spent seven years at Bell Aerospace in America and is now chief design engineer for Morr Energy of Kingsbridge in Devon.

The proposal at Bell was that the inside of the wing of the space shuttle should become a vacuum and using the heat pipe principle—rapid condensation and revaporisation—dissipate the excessive heat generated along the leading edge of the wing during re-entry.

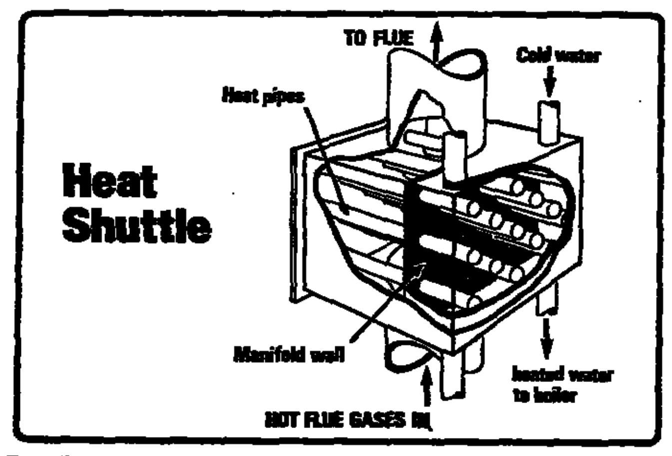
Mr Scurrah brought his knowledge to Britain in 1972 but only in the last year has the technology been refined.

Mr Adam Tucker, general manager of Morr, believes that he can cut by half the energy loss of the most efficient boilers—typically that means improving thermal efficiency from 80 per cent to 90 per cent. If that happens with the central heating boiler at the Ferranti chip plant in Edinburgh, the £15,000 investment will pay back in less than a year.

The principle of the heat pipe relies on a liquid—in this case water—boiling in a vacuum at a lower temperature than in the open air.

When it becomes a vapour it absorbs latent heat and moves to the other end of the pipe at the speed of sound. This end is being cooled so the vapour condenses and gives off heat

Morr is installing a bank of heat pipes in a casing into a section of the flue pipe of the boiler. One end of the pipe projects into the stream of hot flue gases while the other is tapped into a water jacket.



Satellite hunt for lost cities

ARCHAEOLOGISTS in the Andean jungles are to use satellite technology.

With photographs from the U.S. Landsat Earth-mapping satellite and from a low-flying aeroplane, researchers hope to discover fresh information about the remains of Peru's Gran Pajaten.

In two further archaeological investigations involving Landsat, the U.S. National Aeronautics and Space Administration is aiding searches for lost cities in Costa Rica and for signs of human evolution in Kenya.

Multi-lingual answer phone

Ferranti Computer Systems of Manchester is introducing a set of computer programs that will send messages along telephone lines and translate them into other languages.

The software package will be used in electronic-mail systems. A person sends a voice message to a recipient who is away from his office or home. By dialling a certain number on the public telephone system, the second person gains access to the message.

The sender can ask for the introduction to the message to be received in English, French, German or Flemish.

The office automation revolution still has a long way to go

OF THE UK's 9.2m office workers, fewer than half have any electronic assistance. The nearest most get to automation, according to a report just out, is a telephone, a calculator and a coffee machine.

Even so, expenditure on office automation in the UK rose from £500m in 1980 to nearly £2bn last year. Of this £1bn was spent on workstations alone. Growth continues at a healthy 50 per cent a year.

But change and cut-throat competition have been the order of the day and 1984 was a year in which the large number of suppliers forced some dramatic price reductions. In addition, Data Logic (Ratheon) withdrew from the market, Exxon Office Systems was purchased by Olivetti, Data Recall became a part of Information Technology (ITL), ICL was bought by STC and a number of fringe companies pulled out altogether.

A key fact to emerge is that there are now more personal computers (PCs) being used primarily for word processing than there are dedicated word processors (WP).

Nevertheless, the WP specialists shipped nearly 40,000 workstations, including nearly 11,000 typewriter upgrades to WP. But they were outperformed by the PC vendors, who supplied over 63,000 machines that were to be used mainly for WP.

Some 70 per cent of sales of these dedicated or PC-based word processors were fairly equally divided between DEC, Triumph Adler, IBM, Olivetti, ICL and Wang, with shares of 14, 12, 12, 11, 11, and 10 per cent respectively.

Electronic typewriter sales at 175,000 units were 30 per cent up on 1983—the 60 per cent growth of 1983 could not be sustained. There are now almost 500,000 installed in Britain and although this is less than half the number of manual and electromechanical machines, it is a remarkable achievement in five years.

Electronic typewriter prices came down by 25 per cent in 1984 and there was increasing penetration by the Japanese (who now import more office machines of all kinds to the UK than Germany, Italy or the U.S.).

Geoffrey Charlish finds that most office workers have no electronic help despite rapidly growing equipment sales

Olivetti still leads in electronic typewriters with 28 per cent of the UK market, followed by Triumph Adler (17 per cent), Olympia (17 per cent) and Canon (13 per cent).

The report by Wharton Information Systems says the heady PC days of 1982-83, when six-fold increases were registered, were not equalled. Sales of PCs grew by 83 per cent in 1984 with over 150,000 machines sold for office use. More than 250,000 are now in use.

In PCs the leaders in 1984 according to Wharton were IBM (32 per cent), ACT (30 per cent) and Apple (6 per cent).

Software has improved. Until recently, PC packages for word processing were relatively unsophisticated and poorly supported. Keyboards, character presentation on-screen and limited memory all combined to give woefully slow results and frequently much irritation. But that has all changed, which is why PC word processing has become so popular.

Sales have grown despite the recession, the report says, because over 40 per cent of office workers are employed by local and central Government who have, according to Wharton, been largely untouched by the recession.

Many others are in service industries, which have also avoided the worst. Employers everywhere are trying to get more out of employees—and office automation is one good method.

But there are two sides to the coin. According to research at Xerox in adopting office automation the good staff get better but the bad ones get worse.

OASIS report on the UK, Wharton Information Systems, Richmond, Surrey (01-940 7366).

BASE LENDING RATES

A.B.N. Bank	12½%	C. Hoare & Co.	12½%
Allied Irish Bank	12½%	Hongkong & Shanghai	12½%
American Express Bk.	12½%	Johnson Matthey Bkrs.	13 %
■ Henry Ansbacher	12½%	Knowsley & Co. Ltd.	13½%
Amro Bank	12½%	Lloyds Bank	12½%
Associates Cap. Corp.	13 %	Edward Manson & Co.	13½%
Banco de Bilbao	12½%	Meghraj & Sons Ltd.	12½%
Bank Hapoalim	12½%	Midland Bank	12½%
BCCI	12½%	■ Morgan Grenfell	12½%
Bank of Ireland	12½%	Mount-Credit Corp. Ltd.	12½%
Bank of Cyprus	12½%	National Bk. of Kuwait	12½%
Bank of India	12½%	National Girobank	12½%
Bank of Scotland	12½%	National Westminster	12½%
Banque Belge Ltd.	12½%	Northern Bank Ltd.	12½%
Barclays Bank	12½%	Norwich Gen. Trust	12½%
Beneficial Trust Ltd.	13½%	People's Trust	14 %
Brit. Bank of Mid. East	12½%	Provincial Trust Ltd.	13½%
■ Brown Shipley	12½%	R. Raphael & Sons	12½%
CL Bank Nederland	12½%	P. S. Refson	12½%
Canada Permanent	12½%	Roxburghe Guarantee	13½%
Cayzer Ltd.	12½%	Royal Bank of Scotland	12½%
Cedar Holdings	13 %	Royal Trust Co. Canada	12½%
■ Charterhouse Japhet	12½%	■ J. Henry Schroder Wagg	12½%
Choulartons**		Standard Chartered	‖12½%
Citibank NA	12½%	TCB	12½%
Citibank Savings	¶12½%	Trustee Savings Bank	12½%
Clydesdale Bank	12½%	United Bank of Kuwait	12½%
C. E. Coates & Co. Ltd.	13½%	United Mizrahi Bank	12½%
Comm. Bk. N. East	13 %	Westpac Banking Corp.	13 %
Consolidated Credits	12½%	Whiteaway Laidlaw	13½%
Co-operative Bank	*12½%	Williams & Glyn's	12½%
The Cyprus Popular Bk.	12½%	Wintrust Secs. Ltd.	12½%
Dunbar & Co. Ltd.	12½%	Yorkshire Bank	12½%
Duncan Lawrie	12½%		
E. T. Trust	13 %		
Exeter Trust Ltd.	13½%		
First Nat. Fin. Corp.	13½%		
First Nat. Secs. Ltd.	13½%		
■ Robert Fleming & Co.	12½%		
Robert Fraser & Ptns.	13½%		
Grindlays Bank	‡12½%		
■ Guinness Mahon	12½%		
■ Hambros Bank	12½%		
Heritable & Gen. Trust	12·		
■ Hill Samuel	§12½%		

■ Members of the Accepting Houses Committee.
* 7 day deposits 9½%, 1 month 10¼%. Top Tier—£2,500+ at 3 months notice 12½%. At call when £10,000+ remains deposited.
‡ Call deposits £1,000 and over 9½% gross.
‖ 21-day deposits over £1,000 10¼%.
¶ Mortgage base rate.
** See Provincial Trust Ltd.
§ Demand deposits 9¼%.

Spain pins its hopes on small cars

By Kenneth Gooding, Motor Industry Correspondent

AS SPAIN gears up for entry to the European Community next January, its motor industry in many ways is a microcosm of the West European industry as a whole. There is excess capacity, extremely severe competition and most of the producers are in a sorry financial state.

The Spanish Government, unwilling to give more money to the sector without the prospect of a reasonable long-term return, has done some homework and concluded that Spain could consolidate its position as Western Europe's small car production centre.

The reasoning goes something like this. Small cars usually bring small profits. But labour is cheaper in Spain than in the other major motor industry production countries: West Germany, France, Italy and the UK.

There is a well-established component manufacturing sector to service the assembly plants while Spain, itself a relatively big market for small cars, is also close to Italy and France where small cars predominate.

So the Government has sent out signals to the manufacturers indicating that this is an opportunity they must seize—and that it will support their efforts to capture more of Europe's small car production.

The industry is still mulling this over. It has just breathed a heavy sigh of relief because a potentially serious threat to its future has been removed now that the terms of Spain's entry to the Common Market have been agreed.

There had previously been the remote—but worrying—prospect that Spain might be denied entry to the Community and that the privileges it had been receiving from the Common Market countries—including the low import tariff of only 4 per cent on cars—might be removed. If Spanish cars had to pay the 11 per cent tariff imposed on other non-Community countries, its small cars would not look such a bargain.

Spain has only one national car producer, the Seat company. The others — Renault, the Peugeot-Citroen-Talbot group, Ford and General Motors—have for some time been using Spain as a low-cost production base to supply their European dealer networks.

If the tariff advantage had been snatched away, the two French groups in particular would have had to think very carefully about the future prospects for their rather ancient factories in Spain.

Even now, however, the car producers have many short-term problems. And the industry's ills are startlingly similar to those affecting the volume car producers in other parts of Europe.

To start with, in spite of the large tariff barriers Spain erected to protect its motor industry—imported cars pay a 36.7 per cent duty—competition is fierce because so many producers are fighting for a share of a market which shows no real growth.

New car sales peaked at 663,000 in 1977 and then drifted to only 400,000 in 1981. They recovered in the following two years to reach 522,000 in 1983 but eased back last year to 495,000. The industry believes registrations may climb back to 510,000 this year even though real disposable incomes in Spain are falling and interest rates are high, encouraged by the Government's determined attack on inflation — down from 12.2 per cent in 1983 to 9 per cent last year and an official target of 7 per cent by the end of the year.

Ford of Spain's managing director, Mr Patrick Byrne, says: "We are still planning on growth in the Spanish market, but we have cut back our expectations. We see the industry growing slowly and steadily and one day domestic sales must take off."

On the production front, Spain overtook the UK as long ago as 1980. It is the sixth-largest car-producing country in the world.

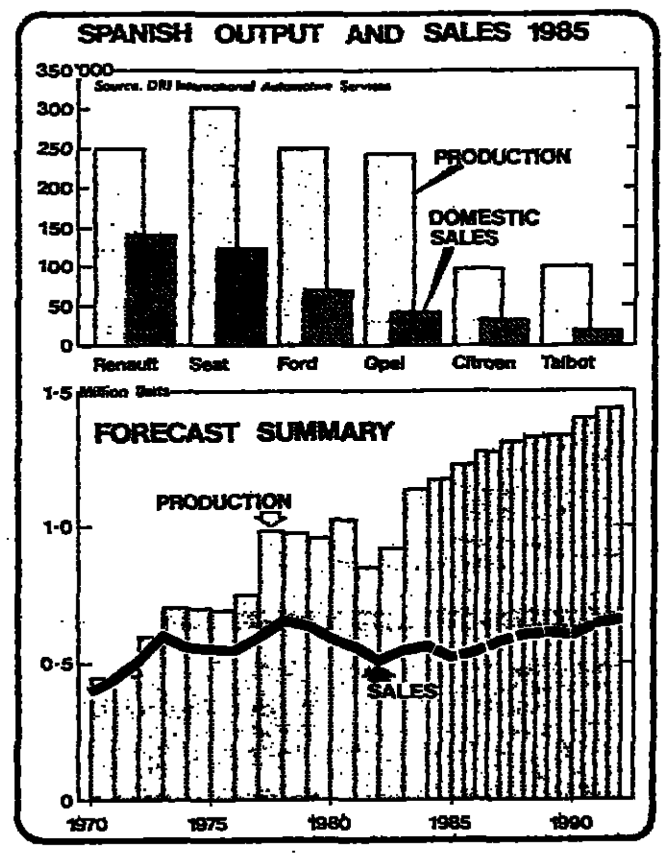
Last year output inched ahead from 1.14m to 1.17m thanks to Spain's success as an exporter.

The country exported 61 per cent of the cars it produced last year compared with 56 per cent in 1983 and well ahead of any competitor. Japan and West Germany managed just over 50 per cent each.

Far from being delighted by this achievement, the industry has complained to the Government that the high export percentage has more to do with the depressed domestic market than any other factor.

The Spanish industry could produce 1.5m cars annually, so last year's output left 22 per cent excess capacity. That excess has been up to 30 per cent in recent years and prompted cut-throat competition.

Among other things, this held retail prices in check. Ford's Mr Byrne estimates that car prices have been lagging the retail price index by roughly 0.5 per cent a year. The industry has fallen behind inflation by between 1.8 per cent and 2.3 per cent in the past three years, he says.



Leighton Morris

Add to this the fact that there has been a flurry of new or "facelifted" models in the small car sector which predominates in Spain—models such as the Peugeot 205, the new Renault R5, the revamped Fiesta and the new Opel Corsa from General oMtors—and it is not surprising that most of the companies suffered losses last year.

The exceptions were FASA-Renault which has indicated it just about broke even in 1984 following a very sharp fall in its exports, down 40.2 per cent from 111,707 to 66,860 because of Renault's problems in France. Ford of Spain, which saw profits fall from about $70m in 1982 to around $28m in the following 12 months, did "significantly better" last year. (Spanish companies do not have to finalise accounts until the end of June).

Ford's relative success emphasises another factor in the competitive car market—like the UK and West Germany, Spain has become a battlefield in the major struggle between the U.S. giants, Ford and GM.

In 1982 GM's $1bn plant at Zaragosa came on stream, marking not only the entry of the world's largest vehicle producer to the Spanish market but also to the small car sector in Europe with the Opel Corsa/Vauxhall Nova models.

Dr Horst Herke, chairman and managing director of GM of Spain since June last year, insists the new venture has done very well on the manufacturing side—"in performance, quality and productivity, and in the application of modern technology."

Sales in Spain have also been in line with expectations. A network of 150 dealers has been set up, with more to come, and GM, which was selling only a handful of high-priced imports until the Zaragosa factory started up, achieved a 9.8 per cent market share in 1983 and 1984 and 11.9 per cent in the first quarter of this year.

Dr Herke admits, however: "We are reasonably satisfied but the bottom line is not yet pleasing the shareholders."

GM expected its Spanish offshoot to be profitable by now. But, according to Dr Herke: "Profit is not around the corner, it is on the horizon."

Ford's financial results are better than GM's partly because the Ford plant at Valencia was set up in 1976 and has been amortised since then. GM of Spain still has heavy borrowings.

Ford also produces a wider range of cars for the domestic market, having added Escort and Orion assembly at the factory originally built to produce only the Fiesta.

While Ford makes money by exporting Fiesta components, including engines, GM has to import the engines for the Corsa/Nova from its new plant in high-cost Austria. (GM expected that, by the time Zaragosa came on stream, Spain would be in the Common Market).

Dr Henke says his company has been having discussions about adding another model to the one being produced at the moment.

"We would like another leg to stand on with another Spanish-built car," he says, "but we don't want to be like some other manufacturers in Spain with lots of models produced at uneconomic, low volumes."

It would not involve vast expenditure to add another model to Zaragosa's assembly operations, but GM still has to win Government approval to import the components without paying the 36.7 per cent tariff. It wants a Government declaration that the project will qualify for low-interest loans.

Ford expected to lose ground after the GM Corsa was launched in Spain. Its market share dropped from 16.1 per cent in 1982 to 13.8 per cent in 1983. But the arrival of the locally-built Orion, Ford's small diesel engine and the "facelifted" Fiesta early in 1984, enabled Ford to reach 14.1 per cent penetration last year and 15.2 per cent for the first quarter of 1985.

Last year Ford moved back to the top of the production league table in Spain with an output of 262,099 cars (up from 221,912 in 1983) compared with GM's 259,971 (246,340).

However, Mr Byrne believes Ford's output will fall in 1985 because export demand is not growing and disruptions to production because of an industry-wide pay dispute have already begun to be felt.

In contrast, Dr Henke hopes GM will produce 270,000 cars in Spain this year, near the maximum two-shift capacity, following the introduction of five-door versions of the Corsa/Nova.

Ford continues to invest in Spain and last year spent $40m to bring into production a new 1.3 litre engine for the Fiesta.

Meanwhile, the Spanish Government is negotiating the sale of a controlling interest in Seat to Volkswagen.

The Seat executives hope their company will eventually be used to produce Volkswagen's smallest car, the Polo.

The Spanish Government's recent indication that it will do what it can to turn Spain into Western Europe's small car production centre was almost certainly influenced by Seat's interest in capturing the Polo business.

There are also the Japanese to be considered. Spain's tariff barriers so far have kept their presence in the car market at a low level.

However, in the commercial vehicle field, Nissan has taken control of Motor Iberica and has already dropped some hints that it might extend the range from vans and four-wheel-drive vehicles to cars. Suzuki has linked with Land Rover Santana to assemble a small, all-wheel-drive vehicle, but has also suggested it might follow up by offering its (rather limited) car range as well.

Critics of the Spanish Government's proposals argue that it is illusory to conclude that Spain is a low-cost production country. While the cost of labour is probably 30 per cent below that in West Germany, labour accounts for only 25 per cent of the total cost of building a car. Energy and materials cost just as much in Spain.

If the Government wants a healthy industry, the critics insist, it should cut taxes on cars and stimulate domestic demand.

INTL. COMPANIES & FINANCE

Mobil: day of the number cruncher

By William Hall and Ian Hargreaves

AFTER 15 years in power, the top management team at Mobil is quietly handing over to a new generation.

But as the new men take their seats inside Mobil's anonymous headquarters opposite Grand Central Station, the rest of the oil industry is not sure whether to expect fireworks or more of the same from the number two U.S. oil company.

With its debt burden more than doubled following last years' $5.7bn takeover of Superior Oil, its return on equity stuck since 1982 below the average for all of U.S. industry and its share price at a 65 per cent discount to asset value, some Wall Street people think Mobil's new bosses have some hard decisions ahead of them.

The critics say that since Mobil cannot afford, like Exxon and Amoco, to boost its share price by purchasing its own stock, it will have to pursue a more radical restructuring, if it is to escape a shareholder rebellion.

Those who think that, however, have either not been listening to Mr Allen Murray, 57, Mobil's new chief executive, or

BIG OIL ADJUSTS

they don't believe him. "I don't see any dramatic changes," says Mr Murray, "I think we've been on the right path."

A night school trained accountant and wholly different in style from his Princeton-educated predecessor, Mr Rawleigh Warner, Mr Murray adds: "There is no question we have some problems. All of the industry does. Oil and chemical operations face severe industry overcapacity. Worldwide oil prices have been weak and competition in gasoline markets was worse last year than at any time I can remember." The current cutbacks taking place within the oil industry are, he thinks, "a normal thing which happens to a mature industry."

Certainly Mobil's own retrenchment has followed the industry pattern. The company has, since 1980, closed or sold six refineries, reducing its capacity by 18 per cent; it has trimmed its workforce by almost a fifth; got out of some petrol markets and intesified its presence in others and has sold $1bn of surplus assets.

Mobil has also moved to undo its errors of diversification, most spectacularly by taking a $500m write-off on Montgomery Ward, its department store chain, in order to make Ward attractive to potential purchasers.

On the other side of the balance sheet—expansion—Mobil has also followed the industry pattern. After failing with bids for Conoco and Marathon, it finally succeeded in wooing Superior; a notable prize among the recent clutch of oil industry mergers, since Superior is virtually all in North America, still the most desirable oil province, and has no downstream operations. At a stroke, Mobil increased its worldwide oil and gas reserves by one-sixth.

But in some respects, Mobil does not fit the industry pattern. Partly this is a question of Mobil's style—a blend of introversion and aggression which has led, among other things, to a complete embargo upon any contact between the company and the Wall Street Journal. A more substantive difference, traditionally, has been Mobil's relationship with Saudi Arabia.

Mobil, under the leadership of Mr Warner and Mr William Tavoulareas, made the pursuit of close ties with the oil-rich Kingdom an article of faith. As other companies became nervous of their dependence upon the Saudis, Mobil increased its equity in Aramco (the partnership involving Texaco, Mobil, Chevron and Exxon which provides technical assistance to the Saudis and receives preferential rights to lift oil in return); and piled hundreds of millions of dollars into joint refinery and chemical ventures with the Kingdom.

Mr Murray is widely considered to be a sceptic about this Saudi strategy, which since 1983 has cost the company undisclosed sums whenever Saudi crude has been officially priced above the prevailing spot market level.

Last year, Mobil received 486,000 b/d of crude and natural gas liquids from "long term and special arrangements" with "other eastern hemisphere countries," according to its accounts. This crude, virtually all of it Saudi, is more than Mobil produced from the U.S. and the North Sea combined last year. A dollar a barrel loss would cost the company $177m in a full year.

The fact that Mobil has sharply reduced its offtake of crude in this category suggests the message has not been entirely lost in New York. The 1984 total is down from 898,000 b/d in 1982—a 46 per cent drop. This compares with an overall drop in Saudi output of 80 per cent.

Mr Murray plays his cards close to his chest on the matter when he says he hopes Mobil still has "a special relationship" with Saudi Arabia. "Sooner or later the supply and demand lines are going to cross. To turn your back on the country which has the most reserves in the world and not to make sure that you have a solid position and an ability to get hold of that oil to supply your markets is a mistake."

Behind the scenes, however, Mr Murray, as part of a general financial tightening, has taken an unprecedentedly tough line on Saudi supplies, more in common than is admitted with the policy of Chevron and Texaco, both of which have cut their Saudi connections to the bone. Following a stormy meeting with Sheikh Yamani in Houston last month, the Aramco partners are expected to cut their offtake of Saudi crude from over 1m b/d to around 500,000 b/d.

This indeed may be the key to the Murray style—to smile and say that nothing is changing just as the furniture is being moved. He admits that his review of saleable assets, being carried out with the assistance of Goldman Sachs, is turning over every asset in the company—"almost service station by service station."

This spirit has even extended to the upstream exploration and production side, where Mobil has adopted Superior's practice of setting up a specialised drilling department, with full responsibility for costs and performance, so that top management knows where the buck should stop when budgets are exceeded.

Although Mobil's record of replacing its reserves has been, by the oil majors' standards, quite good, its findings costs are a third higher than Superior's. The company has also suffered a patchy exploration success rate with 45 per cent of its exploration wells dry last year—a bad result by any standards.

The Superior acquisition, clearly, is to be used to ginger up Mobil's own operations. One-third of the managerial vacancies which have occurred corporation-wide since the merger have been filled with Superior people. At the same time, there are considerable economies of scale—40 per cent of Superior's staff, mostly administrative jobs, have left since the merger.

With Superior's strength in North America, Mobil does now have a strong portfolio of near-term upstream opportunities. The company has had major successes in Mobile Bay, offshore Alabama, which should be producing by late next year, and the large Hibernia field off Newfoundland seems at last to be moving towards development. Meanwhile Mobil's Indonesian gas interests, a jewel in the corporate crown, continue to grow, as do the company's North Sea activities.

Perhaps Mobil's biggest strategic problem is to convince investors that this strength upstream, which accounted for all but a small fraction of Mobil's profits last year, will not be dragged down by the company's continued commitment to the principle of oil company integration, reflected in its downstream, chemical, refining and market activities.

These activities continue to demand significant capital spending—over $650m last year—and comprise a large proportion of the company's asset base.

No one now expects performance to be turned around by a significant improvement in demand — indeed chemicals profits continued to be anaemic last year in spite of a booming U.S. economy.

With such a large volume of non-performing assets, Mr Murray is bound to have real difficulty improving Mobil's

BIG OIL ADJUSTS

financial ratios—9.2 per cent return on equity last year and net earnings of $1.26bn, which represents a cover of only 1.4 for the shareholders' dividend. In only one of the six past years has Mobil's cash flow covered its capital spending and dividend costs.

What Mobil hopes is that having invested heavily in modern capacity downstream, the higher-cost capacity of competitors will be shaken out in the next few years, leaving Mobil well placed for the 1990s.

These days, that is no more than the standard oil man's prayer. The industry has convinced itself that the next few years will be hard but that in the 1990s the good times will roll again. But for a company like Mobil, with $11bn of debt on its shoulders, the years immediately ahead could turn out to be quite tricky if oil prices slide and demand fails to recover, as is perfectly possible.

It is a period for controlling costs and paring the business back to basics. In such periods, number crunchers like Allen Murray, who are not afraid of slaying sacred cows, have their day.

The first article in this series appeared on May 23.

INTERNATIONAL COMPANIES and FINANCE

Ian Rodger on a Norwegian group's push into higher value alloys

Elkem discovers its main driving force

ELKEM, the Norwegian metals group, is hoping that its London stock market debut this week will mark the beginning of a major change in image.

The company has acquired a reputation as a fairly volatile performer in recent years, in terms of both profits and share price. But folowing a major restructuring programme, the directors believe that Elkem will do better on the upswings and suffer less on the downswings than it has in the past.

There is already evidence of change in the performance of the shares this year. The group has been forecasting an earnings decline for 1985, but the shares have remained firm in the NKr 145 range for some time. They plunged to a low of NKr 33 in 1983.

The fruits of the restructuring will take a little more time. One of the last elements was completed only two weeks ago, when the group sold Manchester Steel, the British mini-mill operator.

Electric power

Mr Kaspar Kielland, then an executive vice-president and now president, recalls: "We wanted to find out what was the driving force of Elkem, what were we in command of. And we soon realised it was our ability to convert electric power into metallurgical products."

The company was already a strongly established supplier of aluminium, ferro-alloys and silicon, all of which require huge amounts of electric power to produce. It was also the leading maker of furnaces and other equipment for producing ferro-alloys.

Some company officials were concerned that there was not much growth in some of these businesses, but Mr Kielland was unimpressed. "You shouldn't fall into the trap of saying something is no good anymore just because it is mature. If you have a competitive advantage, you should stay in."

As a result, the group, which derived a third of its revenue from steel in 1980, is out of

Mr Kielland: maintaining a competitive advantage

steel completely. It is also out of copper mining which accounted for another 5 per cent of sales in 1980 and a few small manufacturing businesses.

On the other side, following a major acquisition, it has become the world's largest producer of silicon and other metals for alloying with steel and aluminium. Last year, the group's pre-tax profits rose to NKr 658m ($74m) compared with NKr 235.6m in 1983 and heavy losses in 1981 and 1982.

Elkem's restructuring dates from 1978 when the group was faltering, not only because of the growing crisis in steel and mining, but also because of the bewildering variety of businesses it was in, such as nuts and bolts, locks and chainsaws as well as basic metals operations.

The directors decided to take a fresh look at their position.

Elkem was thus ready to take advantage of the opportunity of a lifetime when it came in early 1980. Union Carbide, the diversified U.S. chemicals group, had apparently been going through the same sort of self-examination as Elkem, but its conclusion was that it should get out of ferro-alloys. Even though it was the leading U.S. producer with 40 per cent of output and a 20 per cent home market share, Carbide concluded that it did not have a competitive advantage and should withdraw.

It approached Elkem (the intermediary was none other than Mr Ian MacGregor, currently chairman of the UK Coal Board, but then working for Labard Frere in New York) and the Norwegian quickly agreed to the acquisition, which included three plants in the U.S., two in Norway and two in Canada. The deal meant that Elkem's ferro-alloy and silicon division more than trebled in size.

Elkem's sales in this sector in 1980 were NKr 978m while Carbide's were the equivalent of NKr 2.5bn. The $260m deal was financed over several years and Elkem only took 100 per cent ownership last August. This year, the groups ferro-alloy division will account for about 60 per cent of group sales, compared with less than a quarter in 1980.

The other major division, unchanged in the shake-up, is aluminium, where the company is comfortably placed in a series of partnerships with Aluminum Company of America. The two concerns share ownership of smelters in Norway and fabricating plants in Holland and Wales. The advantage for Elkem is that Alcoa provides an assured supply of alumina and an assured market for about half the output of the smelters.

Having its own hydro-power plants, Elkem is the low cost aluminium producer in Europe so it has no difficulty selling the rest at a profit, even when aluminium prices are weak. Last year, over 40 per cent of profits came from the aluminium division.

The group is modernising and increasing the capacity of its two smelters, but has no intention of making any more audacious moves in the aluminium sector.

The big question then is how good a performance it can get out of the ferro-alloys division? Historically, most of its ferro-alloys went into steelmaking

	Sales £	Pre-tax profit £
1980	3.8bn	178m
1981	4.7bn	153m*
1982	5.2bn	308m*
1983	5.9bn	236m
1984	7.9bn	658m

* Loss.

and so were subject to the same volatility as the steel industry itself. Elkem's strategy is to move away from dependence on simple steel alloys, such as high carbon ferro-manganese.

The group wants to concentrate on higher value specialised alloys and on metals for other industries. The change is already well under way. The biggest selling product is now silicon metal, which accounts for about 20 per cent of the division's sales. It is used mainly as an alloy in aluminium and also in silicone rubber compounds and in making integrated circuits.

Elkem's output of silicon has grown from 3,500 tonnes in 1965 to 140,000 tonnes last year, 25 per cent of world output. Again its low cost power is helpful because the production of silicon consumes almost as much electricity as that for aluminium. The company has worked particularly hard to serve the semiconductor market and claims a 50 per cent world share in this fast growing and high value market.

The group also has a few new businesses coming along, including one that is based on using the microsilica dust from its metal operations. This dust, which improves the strength of concrete when used as an additive, is gaining increasing acceptance in the construction market.

Heavy write-offs

One problem with this and other projects is that Elkem has been badly strapped for cash. The takeover of the Union Carbide assets cost $260m and the various disposals have involved heavy write-offs. Despite a NKr 160m rights issue last year, equity at the end of the year amounted to only 23 per cent of total capital of NKr 8.25bn.

These figures exaggerate the problem somewhat because Elkem understates the value of its hydro power stations for tax reasons. However, Mr Kielland acknowledges that "it is very important for us to get a better balance sheet," and says he would like to see equity up to about 30 per cent of total capital.

He has set some fairly ambitious financial targets for the group, including an average return on investment of 16 per cent. Many shareholders might settle for less if the variations from the average tend to be less violent than they have been in the past.

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ISSUES OF GOVERNMENT STOCK

The Bank of England announces that Her Majesty's Treasury has created on 31st May 1985, and has issued to the Bank, additional amounts as indicated of each of the following Stocks:

£200 million 11 per cent EXCHEQUER LOAN, 1990
£200 million 10½ per cent CONVERSION STOCK, 1999
£200 million 11¾ per cent TREASURY STOCK, 2003-2007

The price paid by the Bank on issue was in each case the middle market closing price of the relevant Stock on 31st May 1985 as certified by the Government Broker.
In addition, Her Majesty's Treasury has created on 31st May 1985, and has issued to the National Debt Commissioners for public funds under their management, an additional amount of £150 million of 10 per cent Treasury Convertible Stock, 1990.
In each case, the amount issued on 31st May 1985 represents a further tranche of the relevant Stock, ranking in all respects pari passu with that Stock and subject to the terms and conditions of its prospectus (save as to the particulars therein which related solely to the initial sale of the Stock), and subject also to the provision contained in the final paragraph of this notice. Application has been made to the Council of The Stock Exchange for each further tranche of stock to be admitted to the Official List.
Copies of the prospectuses for 11 per cent Exchequer Loan, 1990 and 11¾ per cent Treasury Stock, 2003-2007, dated 8th February 1985 and 20th July 1979 respectively, and of the prospectus dated 28th April 1983 for 2½ per cent Index-Linked Treasury Convertible Stock, 1999 (which contained the terms of issue of 10½ per cent Conversion Stock,1999) may be obtained at the Bank of England, New Issues, Watling Street, London, EC4M 9AA. The Stocks are repayable at par, and interest is payable half-yearly, on the dates shown below:

Stock	Redemption date	Interest payment dates
11% Exchequer Loan, 1990	12th February 1990	12th February 12th August
10½% Conversion Stock, 1999	22nd November 1999	22nd May 22nd November
11¾% Treasury Stock, 2003-2007	22nd January 2007, or on or at any time after 22nd January 2003 subject to not less than three months' notice	22nd January 22nd July

The further tranches of 10½ per cent Conversion Stock, 1999 and 11¾ per cent Treasury Stock, 2003-2007 will rank for a full six months' interest on the next interest payment date applicable to the relevant Stock. The further tranche of 11 per cent Exchequer Loan, 1990 will rank for the interest payment of £4.6342 per cent due on 12th August 1985 on the existing Stock. Official dealings in the Stocks on the Stock Exchange are expected to commence on Monday, 3rd June 1985.
Government statement
Attention is drawn to the statement issued by Her Majesty's Treasury on 29th May 1985 which explained that in the interest of the orderly conduct of fiscal policy, neither Her Majesty's Government nor the Bank of England or their respective servants or agents undertake to disclose tax changes decided on but not yet announced, even where they may specifically affect the terms on which, or the conditions under which, these further tranches of stock are issued or sold by or on behalf of the Government or the Bank; that no responsibility can there be accepted for any omission to make such disclosure; and that such omission shall neither render any transaction liable to be set aside nor give rise to any claim for compensation.
BANK OF ENGLAND
LONDON
31st May 1985

UK NEWS

Motor industry's trade deficit worsens by 5%

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

THE IMPROVEMENT in Britain's motor industry balance of payments which was seen in 1984 came to an abrupt halt in the first quarter of this year. The adverse balance worsened by nearly 5 per cent or by £34m to £718.6m.

However, the value of car exports rose sharply to provide some relief from the generally gloomy picture.

Car exports in unit terms remained roughly at the same level as the first three months of 1984 and fell by 238 or 0.4 per cent to 62,400. But their value jumped by 29 per cent or £74.6m to £333.4m.

That reflects the fact that Jaguar in particular is improving its export performance with high-value cars even though there were serious difficulties with Britain's biggest export contract – the supply of Talbot car kits to Iran – in the first quarter of 1985.

Talbot UK, a Peugeot subsidiary, suffered a seven-week interruption to production of the kits (which count as cars in the statistics) because the Iranians could not provide letters of credit.

But Jaguar exports reached a record 8,000 in the first quarter this year, up by 1,000 from the same period of 1984. The company says it is exporting cars worth £2m a day.

The number of cars imported in the first quarter also fell, by 2.95 per cent or 8,581 to 281,743 but their total value rose by 9.55 per cent or

UK MOTOR TRADE FIRST QUARTER

	1984	1985
Exports		**£m**
Cars	258.8	333.4
Comm vehicles	97.5	102.6
Parts, accessories	558.4	649.5
Other products	200.8	205.7
Imports		
Cars	1003.0	1098.8
Comm vehicles	178.4	187.0
Parts, accessories	537.9	614.2
Other products	80.8	109.9
Trade balance		
Cars	–744.2	–765.4
Comm vehicles	– 80.9	– 84.4
Parts, accessories	20.5	35.3
Other products	120.0	95.8
Total balance	–684.6	–718.6

Source: Society of Motor Manufacturers and Traders from Customs and Excise statistics.

£95.8m to £1.0988bn.

So the adverse balance in cars increased by £21.2m or 2.8 per cent to £765.4m.

Trade in commercial vehicles, which went into the red for the first time in 1983, continues to give concern. Compared with the first quarter of 1984, the adverse balance worsened by £3.5m or 4.3 per cent to £84.4m.

Shipments to some of the UK's traditional export markets, particularly African countries such as Nigeria, are currently almost non-existent because customers cannot find the currency to pay for them.

According to statistics compiled by the Society of Motor Manufacturers and Traders from Customs and Excise figures, the favourable balance of trade in parts and accessories continued to improve.

But there was a sharp decline in the positive balance for other motor products which include agricultural tractors.

● Shopfloor union leaders at General Motors' plants in the UK intend to hold an international conference with their opposite numbers at GM plants overseas in an effort to strengthen ties and to assure mutual support during disputes.

The conference, similar to one organised by unions at Ford earlier this year, would also have the aim of improving the flow of information among unions at each of the GM plants worldwide.

It would be the first time that unions at GM plants – Vauxhall, Bedford and Delco in the UK – had held such a meeting. The intention is to stage the event in Liverpool and a target of £30,000 has been set to finance it.

Union officials at Vauxhall say it is essential that they build links with GM workforces elsewhere in view of the increasingly international pattern of component sourcing and the impact of new technology.

Cunard to refit cruise liners in Malta

By Andrew Gowers

ANOTHER row between Cunard Lines and Britain's work-starved shipbuilding industry looks likely after the decision of Cunard, part of the Trafalgar House group, to refit the Cunard Countess and the Vistafjord in Malta.

The decision to have the two cruise liners sent to Malta in 1983 for refits caused a huge outcry in the shipbuilding industry. The move was all the more contentious because the Cunard Countess had only just returned from the Falklands war and the company was then accused by the unions of being unpatriotic.

It is not clear whether British yards were given a chance to tender for the 17,000-ton Cunard Countess and the 25,000-ton Vistafjord, nor is the value of the contracts to the state-owned Malta Drydocks known. But the Countess contract alone is reported to be worth £3m.

Mr John Hepplewhite, chairman of the shipbuilding committee of the Confederation of Shipbuilding Engineering Unions, commented: "We're just about fed up with the lack of patriotism of Trafalgar House and Cunard."

Malta Drydocks has had repeated successes against stiff international competition in recent years.

Stock Exchange reform 'at risk'

BY JOHN MOORE, CITY CORRESPONDENT

ONE OF the main resolutions leading to a radical reform of the London Stock Exchange will not gain enough support in a vote this week of exchange members, according to an opinion poll published at the weekend.

The opinion poll, carried out by Marplan for Lombard Communications, a public relations firm, has said that only 62 per cent of members will support a resolution supporting constitutional amendments at the exchange. The exchange needs a 75 per cent majority of those voting to enable the constitutional changes to be made.

But the poll shows that Sir Nicholas Goodison, chairman of the stock exchange, will gain enough support for rule changes which will allow full control of stock exchange firms by outside groups. Some 70 per cent of members will support these changes according to the poll.

Outsiders are at present limited to a holding of no more than 29.9 per cent but a simple majority is sufficient to authorise that change.

A meeting of the 4,495 members is to take place on Tuesday at the stock exchange at which a vote will be taken on the changes by a show of hands. But the stock exchange has called for a full poll of the members, who are voting by proxy and in person. The poll takes place on Wednesday on two resolutions – one for relaxing the 29.9 per cent rule and the second resolution for a series of constitutional changes.

The opinion poll, which follows an earlier survey by Marplan for the Financial Times in April, was carried out between May 28 and May 30. In all, 550 members were interviewed by telephone but a high proportion of those interviewed – 44 per cent – refused to disclose their voting intentions. The results of the poll are based on 309 "productive" interviews held.

The poll found:

● 70 per cent of members will support resolution 1, relaxing the stock exchange's shareholding rule limiting outside ownership of member firms to 29.9 per cent stakes. Only 25 per cent are expected to vote against the resolution, which requires a simple majority.

● 62 per cent of members will support a special resolution proposing the constitutional changes to the stock exchange's deed of settlement. Some 30 per cent are planning to vote against, and 7 per cent are undecided.

● 25 per cent of those surveyed consider the resolutions unfair to smaller stockbroking and stockjobbing firms.

● 21 per cent of those voting against resolution 1 considered the proposal ill conceived and insufficiently thought out.

● 23 per cent of those voting against resolution 2 felt that more time for discussion and thought was necessary.

● 10 per cent of those voting against resolution 1 do not like the idea of banks and large organisations being involved with the stock exchange.

● 14 per cent of those intending to vote against resolution 2 felt that a plan to create a market in the shares of the stock exchange itself in order to compensate the members for the participation of outsiders is "inadequate."

Sir Nicholas Goodison has been lobbying extensively at numerous meetings to gain enough support for the changes. If resolution 2, giving effect to constitutional changes, were to fail, he has told members it would "be very serious and could cause substantial damage to the standing of the stock exchange."

He said that the ruling council would proceed with the proposed changes to the membership rules, including the abolition of the 29.9 per cent shareholding rule, if that resolution is passed. The stock exchange would also go ahead with other changes which it has indicated. But the constitution would remain unchanged.

"The council would not put forward any other substantive constitutional proposals in the near future," Sir Nicholas has told the members in the event of the failure of the resolution.

● The Bank of England is expected to reveal today that more than 30 financial groups have applied to become market makers in gilts and that more than £600m of capital will be injected into the market by the participants. This compares with the present capital of £100m to £150m. It has been interviewing potential candidates for a month.

UK NEWS

John Moore on the problems posed by insurance losses of £130m

Lloyd's in dilemma over 'rescue'

IS A RESCUE possible for the 1,525 underwriting members of the Lloyd's insurance market facing £130m of insurance claims? Since *their financial position emerged in* the middle of last month, the Lloyd's market has been buzzing with talk of whether the members should be helped out of their predicament.

As yet, while there is considerable sympathy for the plight of the members, some of whom face financial ruin, little in the form of direct aid has been made by Lloyd's.

The stricken members' affairs are managed by the Richard Beckett Underwriting Agencies company. So far, Lloyd's has made arrangements for management of the members' affairs to pass to a new team, which Lloyd's itself will nominate. That follows the decision by Minet Holdings, a large insurance broker, to close down the agency, which it owns, by the end of the year.

Other than that, Mr Peter Miller, Lloyd's chairman, has stated in categorical terms that Lloyd's itself could not offer financial assistance.

"*Underwriting members of* Lloyd's," he said, "underwrite with unlimited liability and are responsible for all their underwriting liabilities."

To take account of the members' problems, the deadline by which *they have to show that they have* enough funds to meet their liabilities has been postponed by two months to July 31.

The public policy of Lloyd's reflects the market's unease with rescues of individual members. Professional underwriters argue that any support for individuals compromises the principle of unlimited liability.

But the situation at the Beckett agency is so extraordinary that there is support building up within Lloyd's that something should be done to help the members.

Behind the scenes, Mr Graham White, the managing director of the Richard Beckett agency, has held talks with leading market figures, such as underwriter Mr Stephen Merrett, in an effort to draw up contingency plans. Last week Mr White held talks with Lord Goodman, a leading British lawyer, who is heading a steering group of members seeking to protect their interests.

The ideas studied so far include these possibilities:

- A letter of credit and loan arrangements provided by a bank, which would be designed to help the members pass the Lloyd's solvency test by the July 31 deadline. *One of the difficulties with such a* scheme is the size of the possible losses – £130m – since collateral would be required to support the letter of credit.
- A more manageable contribution from the members of between £7m and £8m to fund the day-to-day cash requirements of the members' insurance trading. Lloyd's objects to that suggestion since it argues that members have to be able to demonstrate each year that they can meet possible future claims, even though the claims may not fall on the members for years.
- A possible contribution from the insurance brokers who introduced the loss-making business to the members.
- The possibility of creating a fund from the members affected to buy a stop-loss insurance policy which would guarantee that their losses would be limited to a manageable level.

One other possibility is the fea*sibility of the market itself rallying* round and meeting the losses through a levy on all underwriting members.

If that course of action were to be chosen, there is a recent precedent. In 1980 Lloyd's took the view that *losses* falling on a syndicate of members, headed by Mr Frederick Sasse, should be limited to £6.25m with the remaining £15m of losses being met by the market.

So far, Lloyd's is arguing that the losses falling on the Beckett members arise from pure trading exposures. It would only be able to intervene if irregularities surrounding the course of trading demonstrated that the losses resulted from other than underwriting decisions.

The members affected by the losses argue that their worsening trading position comes shortly after a whole range of management problems have been discovered in the running of their affairs. Last year Minet found that £40m of the members' funds had gone missing and alleged that former executives of the agency had diverted the money for their personal benefit.

Even if a market rescue is not made for the members, the problems of arranging loan facilities are *considerable. The magnitude of the* losses means that Lloyd's has little room for manoeuvre.

Europe bids for plutonium recycling plant

BY DAVID FISHLOCK, SCIENCE EDITOR

BRITAIN is making a bold bid to provide Europe with a reprocessing plant to recycle plutonium fuel from its first full-scale fast reactors.

Such a facility will be needed as part of the activities of Europe's fast reactor research club, in which the UK has recently joined Belgium, France, West Germany, Italy and the Netherlands in a £300m-a-year research programme.

This club aims to develop a commercial design of plutonium-fuelled fast reactor for the European electricity industry, competitive with uranium-fuelled reactors.

The British Government's Radioactive Waste Management Advisory Committee has said that, overall, taking account of the need to mine less uranium, the radiological impact of fast reactors on the environment will be less than for uranium-fuelled reactors.

Mr Fred Bonner, Britain's chief buyer of uranium fuel for nuclear power, recoils in mock horror at the idea of heading a body called the Uranium and Plutonium Institute.

Nevertheless, he believes that the Uranium Institute in London, of which he is the new chairman, must think of another name that reflects the electricity industry's growing interest in using plutonium – the inevitable byproduct of burning uranium – as an alternative to uranium fuel.

As a big consumer of uranium, he is chairman of an organisation founded ten years ago by several of the world's leading uranium producers, in an attempt to forecast future uranium supply and demand.

Those mining companies – in Australia, Canada, France, South Africa and elsewhere – have never completely lived down disclosures that they had met clandestinely in the early 1970s to try to prevent a collapse of the world price of uranium.

The Uranium Institute, although an imaginative attempt to restore confidence with a more scientific look into the future, has suffered from U.S. industry's dread of any taint of a cartel.

Even now it has only two members from the world's biggest producing and consuming nation for uranium, among its 60 members recruited from 18 countries.

One of Mr Bonner's main targets for the institute is to win more U.S. and Canadian members and thus make it fully representative of nuclear fuel interests in the world outside the USSR-dominated areas. He even has high hopes that China will join shortly – despite Taiwan's existing membership.

Mr Bonner has very convincing credentials as a crusading chairman. He has been deputy chairman of the Central Electricity Generating Board, one of the world's biggest users of uranium, for the past 10 years. He is also chairman of the British Civil Uranium Procurement Organisation, which buys Britain's nuclear fuel.

He believes the Uranium Institute under its founding manager, Mr Terry Price, secretary-general, has done a good job of creating a forum for users and producers to meet in intellectual debate.

But now he believes it is time to move forward. The institute's title is restrictive – "it just makes you think of digging up the stuff." He wants it to embrace the complete nuclear fuel cycle, from uranium ore, through fuel, to the disposal of used fuel and by-product plutonium.

The electricity companies with nuclear capacity – 75 in 1983 increasing to 100 by 1990 – will become increasingly disenchanted with the cost and risks of simply storing plutonium and will want to burn it as fuel. In the long run, that must affect demand for uranium, Mr Bonner says.

The institute estimates that, as a result of recession, reduced electricity demand, and widespread wariness of nuclear power after the Three Mile Island accident, the electricity industry also has excess stocks of uranium totalling about 130,000 tonnes. Excess means stock exceeding two years' requirements (one year in the U.S.).

Current consumption is less than 40,000 tonnes. In addition, the producers have an estimated 20,000 tonnes in stock.

UK NEWS

BP-led group to drill off Dorset coast

BY DOMINIC LAWSON

A GROUP of oil companies led by British Petroleum (BP) has agreed plans with the Department of Energy to drill at least five wells into the shallow waters of the environmentally sensitive Dorset coastline, stretching from Poole harbour to Bournemouth Bay on the south coast of England.

The group – consisting of BP, Tricentrol, Premier Consolidated Oilfields, Carless Capel & Leonard, Clyde Petroleum and Goal Petroleum – was obliged to offer the Energy Department what has been described as an "exhaustive work programme" to win the right to drill in the blocks against fierce competition from the international oil industry.

The blocks, 98/6 and 98/7, were the most sought-after in the recently concluded ninth round of offshore oil licences. Block 98/6, which covers the entrance to Poole Harbour, Studland Bay and the main beaches in Poole Bay, is believed to contain about 30m barrels of low-cost oil, an extension of Dorset's Wytch Farm oilfield.

The blocks also contain at least four other geological structures, each thought to be capable of holding about 10m barrels of oil. The consortium has pledged the Department of Energy that it will drill into all these structures.

This is certain to cause great controversy, particularly because Mr Alick Buchanan-Smith, the Energy Minister, last year told local residents that no drilling in block 98/6 would be allowed because of the sensitivity of the area.

As a result, the consortium is contemplating drilling into the block at an angle from the exclusive residential areas around Poole Harbour, or to drill from a manmade artificial island.

Some members of the consortium, however, believe that it will be impossible to carry out the terms of the intensive work programme agreed with the Energy Department without drilling at least one well with a rig inside the "off limits" block 98/6.

The consortium has high hopes that Mr Buchanan-Smith will change his mind on the ban, but that would stir up great local anger.

The same group of companies has already come up against environmental opposition to some of its original plans to exploit the onshore Wytch Farm oilfield. The richest part of the field lies under the Studland peninsula a nature reserve

● Amoco, the U.S. oil company, is seeking approval from Hampshire County Council for plans to drill seven appraisal wells on its oil discovery at Larkwhistle Farm, near Winchester, southern England.

The field, discovered last October by Amoco and Ultramar, the UK oil company, is thought to be similar in size to the Humbly Grove oilfield, the largest UK onshore find after Wytch Farm.

European universities to receive star wars cash for research

BY PETER MARSH

THE U.S. Department of Defence is inviting applications from European university groups for contracts in advanced technologies related to the $26bn star wars programme.

Dr James Ionson, director of the innovative science and technology office at the Pentagon's Strategic Defence Initiative Organisation (SDI) in Washington DC, said at the weekend he was particularly keen to involve British research teams in the project.

The Pentagon is drawing up lists of groups of researchers in different countries and contracting them individually, before decisions by West European governments over whether to become formally involved in the star wars project.

With cash for publicly funded research in short supply in many parts of Europe, teams of academics may find it hard to resist the offers of money from the Pentagon, fuelling fears that the SDI project might divert from other work some of the Continent's most talented research groups.

The first set of European researchers to agree to participate in the SDI is a 20-strong team of computing specialists at Edinburgh's Heriot-Watt University.

Professor Desmond Smith, head of the group, said last week he would join the project. His team, which works on very fast computers based on optical switches activated by light beams, is due to receive a $150,000 contract to bring his technology to a commercial stage.

Dr Ionson, whose division of the SDI Organisation is seeking a budget of $187m from Congress in the year from October, said: "My message to Britain's scientific community is that my doors are open. The UK has got an incredible amount of scientific expertise which we want to bring into the programme if Britain is willing to share it with us."

The innovative science and technology office has earmarked roughly $50m from next year's budget to spend on research work outside the U.S.

Dr Keith Bromley, a U.S. computing specialist from the U.S. Naval Ocean Systems Centre in San Diego, has been instructed to contact British academic groups whose skills are suited to working on the star wars project.

Dr Bromley is on secondment to the UK Ministry of Defence's Royal Signals and Radar Establishment in Malvern, Worcestershire, and is reporting to Dr Ionson.

Dr Bromley's first task was to talk to the Heriot-Watt group. In the next few weeks he is due to contact more British teams of researchers in promising areas of computer studies.

Advances in computing would be required for any operational system to pinpoint the positions of incoming Soviet missiles and instruct weapons such as laser guns to destroy them.

The innovative science and technology office of the SDI Organisation is due to spend some 5 per cent of the $26bn earmarked for the star wars programme until 1990. The other five offices of the organisation are working on hardware that employs today's technologies, leaving Dr Ionson's division to concentrate on research that could be applied in the 1990s.

Dr Ionson has so far given contracts totalling $69m to U.S.-based consortia of companies and universities to work in advanced research areas.

Drug plant completed by Searle

By Tony Jackson

SEARLE, the U.S. pharmaceutical company, has completed a £20m investment at Morpeth in Northumberland to produce prostaglandin for anti-ulcer treatment. The plant is claimed to be the first large-scale production site for drugs of this kind in the world.

The Searle drug is aimed at the $1.5bn world market for ulcer therapy. It is marketed at present only in Mexico, where it was launched at the start of this year. Applications have been submitted in a further 33 countries and the drug is to be reviewed by the FDA – the U.S. licensing authority – later this month.

Prostaglandins are chemicals naturally occurring in the body which help to protect the wall of the intestinal tract from stomach acid. The Searle version – generically known as misoprostol and sold under the brand name Cytotec – is an analogue made by a highly complex process of traditional chemistry.

Four other companies are known to be working on prostaglandins for ulcer therapy – Syntex and Upjohn of the U.S., Hoffmann-La Roche of Switzerland and Glaxo of the UK. None of these has yet brought its version to the market, although Glaxo is believed to be the front runner.

Searle claims that its drug inhibits the production of acid in the stomach, and is thus in competition with the two established anti-ulcer drugs, Tagamet (from Smith Kline) and Zantac (from Glaxo). In addition, the drug is claimed to strengthen the stomach's mucous lining.

Several U.S. drug companies are believed to have recently cancelled investment projects in the UK.

Cable TV film channel Ten collapses

Financial Times Reporter

TEN, the cable TV movie channel, has collapsed after an apparent dispute between shareholders, one participant said at the weekend.

Mr Robert Maxwell, publisher of the Daily Mirror and shareholder in Ten through his recently acquired Rediffusion Cablevision company and Pergamon Press, announced that Ten would close at 2 am on Wednesday.

He also said that Mr Ward Thomas, Ten's chairman, had resigned on Friday night. Mr Thomas and other Ten spokesmen were not available for comment.

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Clients of the Pentagon

SCANDALS ABOUT defence contracts are hardy perennials in Washington political life. But in recent weeks there has been an unusual profusion of them. From the $600 ashtrays to the troubles at General Dynamics, the underlying question is the same. How can the U.S. Government regain control of what President Eisenhower, almost 25 years ago, first called the military-industrial complex?

The case of General Dynamics illustrates the dangers President Eisenhower was warning his countrymen against. The Pentagon has become too dependent on the company, which among other things is building the F-16 fighter, the Tomahawk cruise missile and the Trident submarine. GD, with 96 per cent of its sales to the government, has done well out of the relationship.

Congress has become increasingly aroused by reports of financial irregularities in defence contracting generally and by General Dynamics in particular.

Related difficulties

At the heart of the problem lie two related difficulties. The first is that the service departments, such as the U.S. Navy, share a common interest with civilian contractors in persuading Congress to pay for ever more elaborate and expensive systems. The other is that Congress, knowing this, has insisted on making money available only on an annual basis. But a year-by-year system appropriate for buying large numbers of units such as jeeps or guns is not suitable for the huge capital investment required to produce short runs of immensely complex systems such as nuclear submarines. *Contractors are unable to count* on recouping the cost of tooling over adequate runs, and are thus constantly tempted to lump as much over head as possible into each year's appropriation.

Sometimes the present system is a recipe for contractors to lose money as General Dynamics' Electric Boat shipyard did in the 1970s when the lion's share of the contract for building the Los Angeles class of Hunter-Killer submarines went to another yard. More often, it is a recipe for outrageous cost overruns.

The inadequacies of the present system are well understood in Congress, and there is now a strong sentiment there for overhauling it. The danger is that any new control mechanism will simply be degraded into the "Iron Triangle," that so often in Washington binds together an interest group, the bureaucracy that is supposed to regulate it, and the relevant committees of Congress—to the exclusion of effective executive control.

Control

Yet Congress has shown its capacity to equip itself with useful new instruments for improving its oversight, such as the Congressional Budget Office or the Office of Technology Assessment. The challenge is to devise effective methods for auditing and controlling expenditure, not on a tight-fisted annual basis, but over the whole life of vast and complex industrial undertakings, without handing to the great contractors licences to print their own money.

In the last resort, no amount of rigorous control procedures can have a reliable effect unless there is a method of knowing that $7,000 is too much to pay for a coffee-making machine. There is such a method, it is tried and tested, and it is called competition.

But unlike the free market for coffee percolators, competition in defence procurement must be deliberately organised by governments. In Britain Mr Michael Heseltine, the Defence Secretary, is giving new impetus to the principle of competitive tendering and, in the U.S., Congress is following suit by persuading the Pentagon to give Northrop's F20 a competitive chance against General Dynamic's F16.

Moreover, the competitive principle needs to be *kept* active not merely at the initial tendering phase, but also throughout the procurement and manufacturing phases, in order to prevent cost over-runs. Even in big-ticket items, like aircraft carriers, the principle could still be applied for the procurement of sub-contracted systems and sub-systems, which form a substantial proportion of the total cost. Only through competition can the Pentagon have a reasonable chance of avoiding the scandals currently dogging the U.S. defence industry, and of surviving Congressional budget-cutting without a loss of military security.

Mr Fowler's big day

AFTER months of delays and much last-minute soul-searching by ministers, the Thatcher Government's Green Paper on the future of the welfare state is to be published today. Nobody can deny that the present social security system is an unsatisfactory mess nor that 40 years after the foundations were laid by Lord Beveridge the time is ripe for a rigorous re-examination of means and ends. But if the idea of a searching review followed by a much-needed overhaul has much to commend it, there are nonetheless good reasons to question the way in which Mr Norman Fowler, the Social Services Secretary, and other Cabinet colleagues, have approached their historic task.

Consultation

The first and, perhaps, most serious worry is over the status of the forthcoming Green Paper. Given the wide sweep and complexity of the topics under review and, in the case of pensions, their relevance for future generations, the need for a genuine consultative document is great. The welfare state is so important a subject for so many individuals and groups that the Government ought to allow at least six months, preferably more like nine, for a full and informed public debate. Yet the expectation is that the document will be a *de facto* White Paper merely giving advance notification of legislation planned for the next parliamentary session.

The case for a lengthy exposure period for genuine consultation is strengthened because the Government can claim no direct electoral mandate for far-reaching change. The Conservative Party did not fight the last general election on any such platform. Indeed, following the rumpus caused by the leak in 1982 of the now-defunct "Think Tank's" ruminations about the welfare state, ministers in May and June 1983 kept very quiet on the subject. The general impression was that a second-term Thatcher government would leave well alone.

Mr Fowler may argue there is little need for further consultation because he has been doing nothing but consult for the past 18 months. It is true that he set up five different review committees to consider various aspects of the social security system which have held public hearings. But it is one thing to ask people's views before government plans are formulated, quite another to ask for considered reflections on actual policy proposals. The real debate about Britain's welfare state cannot begin until the Government has made clear its own preferred approach to reform.

Social security reform—especially changes to pensions—have long term implications. The advantage in gaining a measure of cross-party support at least for the broad thrust, if not the fine detail, of reform is obvious. It is not impossible to win a degree of consensus: Serps, after all, was introduced in 1978 with bipartisan support. Consensus may be harder to achieve in today's more adversarial climate, but that does not make it less desirable.

Timing

With hindsight, the composition and terms of reference of Mr Fowler's review committees look less than ideal. It might be easier now to drum up support for the reforms had the Government appointed independent chairmen of the main committees and allowed opposition parties some say in the appointment of committee members. And it might have been wise to have let the review bodies follow the practice of Commons select committees and publish their own findings and recommendations. Mr Fowler would not have had to accept all the advice but at least he could now claim to have consulted seriously.

The final question mark concerns the timing and breadth of the review. A wide-ranging overhaul of the welfare state is being planned just before the computerisation of the tax and social security systems will open a whole range of new possibilities. And the Government has insisted that reform of social security must be tackled quite separately from reform of taxation. Yet most independent experts agree the main problems arise because of lack of integration of the two systems. In spite of its efforts, Mr Fowler's proposals may serve only as a stop gap reform; the real overhaul may have to wait technological advances.

NEW U.S. TAX REFORM PLANS

Reagan deals a clever hand

By Stewart Fleming in Washington and Terry Dodsworth in New York

"DEMOCRATS AND Republicans have a big interest in seeing some of this pass. They certainly do not want to be seen blocking it," says Dr Norman Ornstein, a political analyst and resident scholar at the American Enterprise Institute, a Washington-based think tank. "The electoral politics of this are better than motherhood," adds Mr Jack Albertine, president of the *American Business Conference*, an organisation which represents medium-sized, high growth companies.

In common with most of Washington, both men doubt whether the ambitious timeframe for Congressional approval of the plan this year can be met. Significant changes in the President's tax package lie ahead. "It's not going to be sweeping reform," says Dr Ornstein.

The central question is whether, in the end, Congress will make so many concessions to interest groups that the resulting loss of tax revenue will not be made up by extra taxes elsewhere. The net result could be that tax reform will end up looking more like a tax cut.

Many economists fear there would be a loss of revenue

There are already questions about whether the Treasury's own sums add up. Many tax economists fear that the White House proposal is not revenue-neutral as Mr Reagan claims, but would result in a net loss of revenue — something which, of course, fits the President's philosophy of making government smaller.

The 461-page detailed analysis of the plan which the White House deliberately withheld until after the President had made his pitch on television last Tuesday night suggests that the promised tax cuts would be financed in part by wealthy tax payers who would lose their current ability to deduct state and local taxes from their incomes before calculating their Federal tax liabilities.

The other big losers are companies which face the withdrawal of the tax subsidy on new investments which President John F. Kennedy first introduced in 1961. They would also lose some of the tax breaks which President Reagan gave them in 1981 through changes in the depreciation code.

Changes like these were floated last November in a tax *reform plan* released by the U.S. Treasury which won widespread acclaim from academic economists but was regarded as full of political flaws. A lot has changed since then. Mr James Baker, the urbane former White House Chief of Staff who swapped jobs with Mr Donald Regan at the U.S. Treasury, has taken tax reform out of the ivory tower where Mr Reagan had left it and concocted a revised proposal which is seen as politically more realistic.

Mr Baker claims that 80 per cent of individual taxpayers will pay the same or lower taxes and that millions who are below the official poverty line will be taken out of the tax net. It is a proposal which therefore has considerable political appeal.

For the corporate sector, the proposals carry one central message. President Reagan, for all his genuflections to this or that special interest group, remains a Californian at heart, married to the notion of re-invigorating American industry through the new technologies that have found their strongest expression in the West Coast electronics and defence industries.

Conversely, he has virtually turned a deaf ear to the pleas of the ailing, arthritic sectors which propelled America to the forefront of the industrial world, and led to its dominance of the post-war reconstruction era. To use his own language, he is aiming to engender a new age of the entrepreneur.

Most of the "old" companies have shown relatively little concern about the basic corporate tax rate, either because they have been too unprofitable to pay very much, or because they have been able to offset all their tax liabilities against allowances on their new investments. Now, under these plans, the climate would be very different.

The bias of President Reagan's proposals towards a lower basic tax rate, the continuation of R and D allowances, the abolition of the investment tax credit, and reduced depreciation allowances (albeit not *dramatically lower*) *clearly* favour high tech against low, new against old. Similarly, the lower tax rates for small business pits young, entrepreneurial companies against the "geriatrics."

The way in which industry has responded to the President's message illustrates these differences. The Semiconductor Industry Association says it is "constructively optimistic," pleased to see that research had been highlighted by Mr Reagan and that the R and D credit had been kept. The proposed abolition of the investment tax credit was, it said, "politically realistic."

On the other hand, General Electric, one of the companies that has benefited most from the investment credit and accelerated depreciation, warned bleakly that the proposals could further undermine American industry's competitiveness.

It was concerned, it said, that "in the effort to put together a balanced tax package, the incentives for capital investment have been weakened. These incentives are vital to American jobs and the competitiveness of U.S. industry."

General Electric, ranked at ninth in the Fortune 500 listings, with a return on equity of around 18 per cent, and led by a young management team which has won plaudits far and wide, *is* hardly a company suffering from senility. But there are some businesses for which the President's message has spelt out an uncompromising message of further retrenchment.

The steel industry, bedevilled by huge losses since 1982, is a case in point. It has been so unprofitable in recent years that it has had no earnings against which to offset investment allowances. Indeed, the thrust of its recent lobbying in Washington has been aimed at revamping the system so it could pull forward some immediate cash benefit for investing against putative future profits.

"If we do not get this," one executive said last week, "we shall continue to shrink—and shrink fast."

A further modest, but significant, impact of the new investment allowance proposals on the structure of the U.S. economy is the negative effect they may have on the fashion for leveraged buyouts.

These have been partly based on the generous depreciation allowances available to companies that can write up assets on a takeover and then write them down swiftly against tax. The suggested new schedules will thus force the investment banking community to rethink its tactics.

An uncompromising message for some businesses

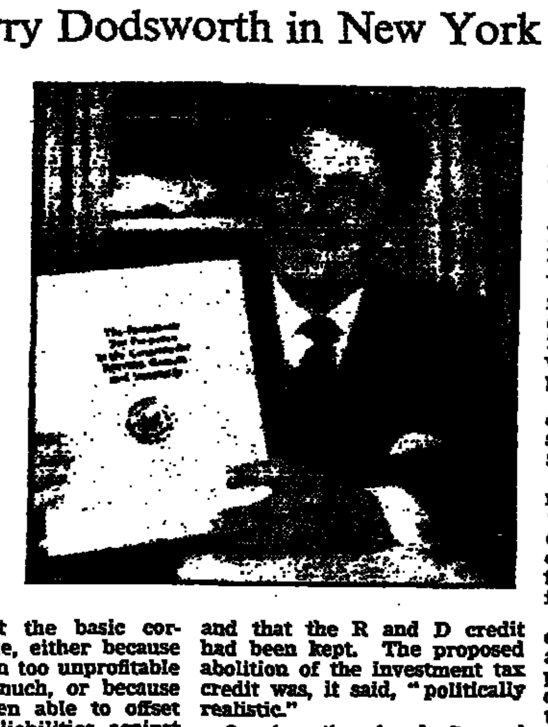
But as the proposals head into the hothouse of Washington deal-making, the general message from the corporate sector is one of cautious support. By cunningly staking out his tents on the ground of fairness and simplicity, President Reagan has made his proposals very difficult to oppose with much vigour.

The "special interests" now find themselves in an awkward, unpatriotic position. As one of them said bitterly: "Anybody whose life is at stake has become a special interest."

Tax Overhaul: How Plans Compare
1986 tax year

	REAGAN PLAN	CURRENT LAW		REAGAN PLAN	CURRENT LAW
Individual tax rates	3 rates: 15, 25, 35%	14 rates from 11% to 50%	Charitable contribution	Deductible, but only on itemised returns	Fully deductible
Personal exemption	$2,000	$1,080	State and local taxes	No deduction	Fully deductible
Mortgage interest	Principal residence deductible	Fully deductible for all mortgages	Capital gains	50% excluded for 17.5% top rate, but fewer items covered	60% excluded for 20% top rate
Other interest	$5,000 plus amount equal to investment income	$10,000 plus amount equal to investment income	Corporate tax rates	33% top rate, graduated rates up to $75,000	46% graduated rates up to $100,000
Employer-provided health insurance	Taxed up to first $10/month for single; $25 for family	Not taxed	Depreciation	Somewhat accelerated, but less generous than current law	Accelerated

Source: Office of the Secretary of the Treasury



A contrast with Britain's piecemeal approach

By Michael Prowse

EUROPEANS may find the grudging welcome afforded President Ronald Reagan's tax reform proposals in Washington somewhat hard to understand. Mr Reagan's plans may *fall short of the* ideal programme of reform laid out by the U.S. Treasury last November. But the package put together by Mr James Baker, the Treasury Secretary, is still light years ahead of anything contemplated by more timid politicians in Europe.

No European government in post-war history has even considered proposals as radical as Mr Reagan's. If the U.S. Congress can be persuaded to enact reforms resembling the President's plan, Mr Reagan will in one fell swoop have achieved more than two Conservative Chancellors in seven successive British Budgets. The White House's conviction that these "fairer and simpler" taxes will strike a strong chord with *the electorate contrasts* vividly with the retreat from radical reform announced by Nigel Lawson, the UK Chancellor in March.

It is ironic that the U.S. is making the running in tax reform. Tax thresholds are already much higher and marginal tax rates much lower in the U.S. than in Europe. If Mr Reagan's reforms go through, the gap will be widened still further and the relative efficiency of the U.S. economy further enhanced. The proposed new top personal tax rate for American citizens of 35 per cent is only five percentage points above the UK's *lowest* rate and compares with top rates of 70 per cent in Japan, 65 per cent in France, 60 per cent in the UK and 56 per cent in West Germany.

Even though the President is envisaging a sizeable shift of the tax burden towards U.S. companies, American business may still emerge as the most lightly taxed in the world. The proposed new corporate tax rate of 33 per cent will be the lowest among big industrial countries. It is lower even than the 35 per cent rate British companies will enjoy by 1986 and compares with rates of 56 per cent in West Germany, 50 per cent in France, and 43 per cent in Japan. And even though the present generous U.S. depreciation allowances are to be reined in, American companies will still benefit from better investment incentives than firms in competitor countries.

Europeans will note, however, that the Reagan-Baker proposals involve more than a drastic simplification of individual taxation and an overhaul of corporate taxes. The White House also intends to do something about the U.S. poverty trap. Mr Reagan intends to implement the massive increase in personal tax thresholds which Mrs Thatcher and other European leaders only dream about. The proposed increase in the personal exemption and the zero-bracket allowance is expected to pull almost all families at or near the official poverty line out of the tax net. The tax reform may do more for this section of the U.S. poor than the whole of Mr Norman Fowler's review of social security will do for the poor in Britain.

Moreover, the proposed elimination of deductions for state and local taxes (which cost the U.S. Treasury some $28bn a year) is arguably a bolder step towards creating a more equitable system of local government finance than anything contemplated in Britain. The effect of the reform — if it gets through Congress — will be to force the richer residents of high spending states to shoulder a much higher proportion of the cost of local services. A comparable move in Britain might be swingeing cuts in rate support grant, coupled with the introduction of a progressive local income tax.

Perhaps the most important message for would-be tax reformers in Europe is the need to think big. The President's proposals may yet be savaged by special interest groups, despite Mr Baker's efforts to assemble a "core constituency" in favour of the reforms. Nonetheless, far-reaching changes which affect virtually every individual and company are more likely to capture the popular imagination and more likely to reach the statute book than the cautious piecemeal approach which has already failed in the UK.

Men and Matters

Cockfield plans super market

Lord Cockfield, the British vice-president of the European commission, has got the bit between his teeth in his drive to create one great market-place for goods and services in Europe. Indeed, there must be those in the British Cabinet who are worrying that their former colleague has "gone native" in Brussels with his new market plan.

A few nights ago he came to London to address Europhile businessmen at a conference *organised by business-conscious* European MPs, and by the Kangaroo group, a pressure group dedicated to breaking down the barriers to commerce in Europe.

He did not mince his words as he described the European white paper on the internal market which is going to form the centre-piece of the next EEC *summit in Milan*.

"We have not baulked at anything," he boomed in his curiously deliberate manner. "It is going to require a major effort by the member states to accept this paper. They have been asking for it for years. Well, now they are going to get it."

"Strewth! I've got into the habit of thinking it's Monday, it must be another Bank Holiday."

Lord Cockfield is determined to fashion his package in a way that will prevent the heads of state endorsing it as a truly wonderful document—and then consigning it to limbo. To that end his staff is devising a detailed timetable leading towards the goal of a free internal market by 1992, to which the *heads of state will be asked to* commit themselves.

Basil de Ferranti, an MEP and a founder member of the Kangaroo group, beamed around the room during Lord Cockfield's delivery rather as Mozart senior must have done while the young prodigy performed.

Never shy of over-statement, de Ferranti told his dinner guests *afterwards*: "We've *always* wanted the Archangel Gabriel as the Internal Market Commissioner, and I'm not sure we haven't got him."

In Whitehall they talk more about St Thomas à Becket.

Bankers' meeting

For those suffering under the misapprehension that bankers lead a dull life the news from Hong Kong is that the 100 national bank governors and bank chairmen, gathered there for the annual International Monetary Conference, spent most of Saturday at the races.

There is no evidence of any banker having made a fortune—or even breaking even on the day for that matter—but betting on the special nine-race meeting touched an all-time record of HK$448m (some £45m).

Hong Kong's racing season ought to have finished last month, but was specially extended as the colony's way of *welcoming* the most powerful gathering of bankers ever seen there.

And, while the bankers were counting their losses yesterday, the Hong Kong Government and local charities had something to celebrate. Betting taxes from the special meeting amounted to nearly HK$43m, while the Jockey Club commission, which goes to various charities, amounted to more than HK$33m.

Show of paws

George Orwell's Animal Farm was collectivist in its socialism. But though the animals were acting in concert they remained unorganised.

That is now rectified in a new fable for children called Union Farm. To be published this month by the trades union-funded Labour Research Department, Union Farm is a radical departure from the LRD's normal fare of diligent detailing of pay agreements, sick benefits, an company donations to the Conservative Party.

"A charming story" is how LRD describes the tale of the animals on Growmore Farm—where farmer Moneybags gives them *only* a little food so that they have to work hard or go hungry.

The animals join together in a strike, with immediate success. In stark contrast to the recent miners' strike the animals easily persuade lorry drivers from delivering goods to the farm.

"There's nothing we can do" Moneybags' sons tell him. "Even the drivers are helping them. We can't beat them all. We'll have to give them what they want."

LRD says the book "offers a different view of the working world from that which features in the majority of children's literature." Different it may be. It is unlawful too. When the animals decide to strike they do *so in clear contravention of the* pre-strike ballot requirements of the Trade Union Act 1984 (which doesn't feature in the story).

The act requires secret ballots before strikes. But the book says "They all vote for a strike by raising their paws, beaks, wings, and tails."

"How do you think Mr Moneybags might get his own back?" the book asks in conclusion. Tom King, the employment secretary, who last week was trumpeting the success of the balloting provisions of the Act in reducing strikes, might be able to tell them.

Lourie's watch?

Eddies caused by European Ferries' move last year to limit the growth of its shareholder scheme for concessionary fares have yet to die away.

Serge Lourie, one of the two leading dissidents who opposed Euroferries plan to trim the perk, is now trying to win a place on the company's board.

Lourie, aged 39, an accountant and an SDP on Richmond council, has put himself forward for nomination to the board at the AGM on June 24. Steven Pattie, the other member of the mutinous duo, has formally nominated him.

In spite of shareholders' successes in persuading Euroferries to modify its original plan Lourie and Patties are still dissatisfied with what they call the company's "lack of direction."

There is little real hope of Lourie being elected. But his nomination will prove a further headache for Euroferries' chairman Ken Siddle who steered the company through several gruelling confrontations with its shareholders last year.

Whatever the dissidents may think the City seems fairly happy with Euroferries *performance. The shares barely* moved when it announced a £72m rights issue last week.

Ships and trips

An exciting new title is just about to be published by the government — Slipping, Tripping, and *Falling Guidance*. Surely a manual for budding politicians?

But, no—just a Health and Safety Executive booklet reminding that 75,000 British workers fall down on the job each year.

FOREIGN AFFAIRS: THE MILAN SUMMIT

Mrs Thatcher wins again

By Ian Davidson

THE goings-on in the European Community typically inspire two sorts of emotion: indifference or despair. From time to time, we imagine they will turn over a new leaf, and live up to some of our original hopes. Almost invariably the expectation is disappointed.

It is obvious, therefore, that a European Community summit, like the one coming up at the end of this month in Milan, is no occasion for predictions; so here goes.

My first prediction is that this meeting, whose task is to give a new dynamism to a Community long stuck in the sands, and which until recently bid fair to be a shouting match between rival and self-righteous ideologues, will turn out to be unexpectedly harmonious and even "successful." There will be much noisy congratulation about a new start for Europe.

My second prediction is that, once the booming rhetoric has died away, we shall see that very little had changed, after all. The audience of these capers will then relapse once more into indifference or despair, according to temperament.

The reasons for these two predictions are one and the same: the governments of key continental countries have been persuaded, by the immovable prejudice of Mrs Thatcher against anything that smacks of "Europe," and by the super-professional campaigning of her Foreign Office, either that they do not really want a European enterprise very different from what they have today, or else, at the very least, that they have nothing to gain by trying to isolate her.

Harsh words? Not at all. Mrs Thatcher may be gratified at such a painless victory. I put the question to a French diplomat. "Do you mean that Mrs Thatcher has won?" I am afraid she has.

But the victory, if that is what it is, is not yet assured; the campaign is entering its final phase. Today the European Commission meets the Italian Prime Minister in Rome to discuss the negotiating tactics of the Italian presidency of the Community. Next weekend the 10 foreign ministers meet in Stresa to review the agenda and search for the unavoidable compromises. And in between, the neo-Monnet Committee, composed of many of the Community's leading political figures, will launch its own detailed programme for more dynamic policy-making. There may be no new beginning, but you can sense that Europe is manoeuvring for what should have been a big event.

Two constitutional issues lie at the heart of all this hectic activity. Will the member states open the door to more rapid decision-making, by reducing or eliminating the national veto in favour of much more majority voting? And will they, as a consequence, agree to increase the legislative powers of the European Parliament? For if national governments surrender naional vetos, there is a loss of democratic accountability; this "democratic deficit," as it is called, can only be made good in Strasbourg—or so it is argued.

Under the Rome Treaty, many decisions can be taken by weighted majority in the Council of Ministers. But 20 years ago General de Gaulle threw a spanner in the works by inventing a new doctrine, that any member state could veto any decision when it judged that its "very important interests" were at stake. The other member states refused, in principle, to accept this new dogma, known (incorrectly) as the Luxembourg Compromise; but in practice, decision-making has been hobbled ever since by the reluctance of member states to go to a vote on contentious issues.

Everyone now agrees that the solicitous respect for what is often no more than the marginal convenience of national lobbies has gone much too far. The search for unanimity has virtually paralysed decision-making in a Community of 10 member states, and the paralysis risks becoming total when Spain and Portugal join next January. The Commission has proposed a programme for eliminating all internal obstacles to trade between the member states by 1992, and in principle the objective of a free internal market has widespread governmental support. But it is evident that the Community can say goodbye to any such target unless most, if not all, of the relevant decisions can be taken by majority vote.

A couple of months ago it looked as if the Community would split almost straight down the middle on this issue on historical as much as on ideological lines. In the report of the Dooge Committee, the six original members of the Community opted for a formula which implied (though it did not explicitly state) a virtually complete abandonment of national vetos, even on issues where the Rome Treaty still requires unanimity. By contrast, the peripheral newcomers—Britain, Ireland, Denmark and Greece—unrepentantly claimed the rights of the Luxembourg Compromise, even if Britain argued that these rights needed to be somewhat circumscribed, and even if all four acknowledged the need, in general, for more majority voting.

Today, however, it would seem that the British diplomatic machine has succeeded in persuading all the other member states that none of them is really prepared to surrender the ultimate right of national veto where "very important interests" are at stake. Are the Luxembourgers ready to be over-ruled on immigrant workers? The Germans on the sugaring of wine? The French on the regular visits of the European Parliament to Strasbourg? The Italians on subsidies for olive oil producers? And so the insidious catalogue goes on.

For such reservations, the ground is, of course, only too fertile. The Dutch have long been champions of majority voting in what they used to hope would be a pre-federal Europe. Yet the other day I heard a Dutch minister speculate whether majority voting would really be in Dutch interests in a 12-nation Community which included Spain and Portugal as well as Greece and Italy. On balance, probably yes; but only just.

By now it is being conceded that the differences over majority voting are probably small enough to be bridgeable; the British will get most of what they want. Much more problematical is the case of the European Parliament. Italy and the Benelux countries are adamant that the powers of the Parliament must be increased to give it a joint role in Community legislation; and the Italian presidency, for one, is constrained because the Rome parliament has unanimously endorsed a *Draft Treaty establishing the European Union*, drawn up by the European Parliament itself, which would have this effect. Mrs Thatcher, by contrast, is hostile to any transfer of powers to the European Parliament, not least because its main impact on *her* life has been to create difficulties for Britain's budget rebate.

Even here, there could be some meeting in the middle, on the principle. British officials are now prepared to admit that *something* may have to be done for the European Parliament; whereas some Euro-Parliamentarians argue that they already have procedural levers which could be exerted much more effectively on the Community's legislative processes. But the crucial question, both on majority voting and on the powers of the Parliament, is whether reform will take the form of gentlemen's agreements, or of legislation.

The case against gentlemen's agreements is that the member states are not gentlemen and cannot, on the record of the past 20 years, be trusted to put the Community first. The German veto of a tiny cut in cereals prices is a case in point.

The case against legislation is that any changes in the Rome Treaty would have to be ratified by 10 (or more probably 12) national parliaments. To pretend that Mrs Thatcher could not get ratification in the House of Commons is sheer hypocrisy; she does not want to. But the Greek and Danish parliaments could be a different kettle of fish.

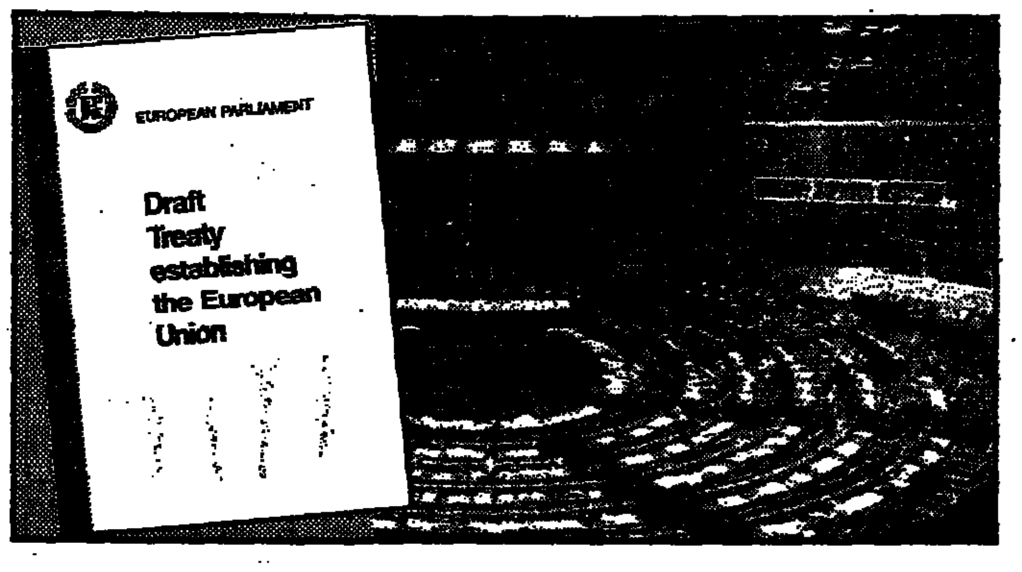
The European Parliament's Draft Treaty seeks to finesse the ratification problem by proposing a variable-geometry Europe: those who want to sign up can do so, the rest can stay out of the new enterprise. It sounds neat; the difficulty is that the ratification of a new (six-nation ?) pre-federal Community could not dispose of the existing 10-12 nation Community. Result: chaos.

In theory, all the member states are committed to an inter-governmental conference to negotiate these and other issues. But the British Government, for one, is determined to avoid an open-ended talk-shop. If there is to be a conference, it must be limited to the working out in detail of firm and clear decisions of the heads of government at Milan.

That is one reason why there is so much hectic preparatory activity; and why the British, generous in victory, are so anxious to be constructive on non-constitutional issues: the internal market, the French Eureka project and a British plan for much closer foreign policy co-ordination.

In the last resort (to round off these unreliable predictions), the run-up to Milan points to a number of curious facts. France and Germany, for all their occasional rhetoric, are both somewhat ambivalent about "Europe"; and neither is prepared, at this stage of the turning circle of the world, to try to create it in opposition to Britain, which must be essential to any serious European ambition. Second, and much more important, national ambivalances about the transfer of sovereignty to Europe will not be resolved until Europe is seen as the vehicle of national security. Neither the Bundestag, nor the Assemblée Nationale, nor the House of Commons will surrender significant sovereignty for such a relatively workaday purpose as a more efficient internal market.

Perhaps they would if Mrs Thatcher showed a mite of enthusiasm for "Europe." But that is asking a lot.



Interior of the European Parliament in Strasbourg

The Draft Treaty seeks to finesse the ratification problem by proposing a variable-geometry Europe: those who want to sign up can do so, the rest can stay out of the new enterprise.

Lombard

OECD findings on capacity

By Samuel Brittan

THE GENERAL assessment section of the OECD June Economic Outlook will mean, as so often, all things to all men, reflecting as it does differences of emphasis within the Secretariat as well as member Governments.

The most interesting part of the report is not the headline generalities, but some of the detailed work in the body of the document. One new chart — which is both too large and too colourful to be reproduced here — shows the changing relation between capacity utilisation and unemployment.

In all areas, but especially Europe, a given degree of capacity utilisation corresponds to a higher level of unemployment today than in the 1960s and 1970s.

Take the rate of capacity utilisation associated in Europe in the late 1960s with 2½ per cent unemployment. That very same rate was associated in the early 1970s with 3½ per cent unemployment, 4½ per cent in the late 1970s, 7½ per cent in the early 1980s and about 10 per cent today. The chart gives *prima facie* support to the view stated forcibly by Sir James Ball in relation to the UK on this page on May 29 that economic capacity rather than demand is the constraint on jobs and growth.

There will, of course, always be argument about measurement of economic capacity, which relates not just to physical equipment, but to capital appropriate to the current state of technology and pattern of demand. The OECD measure is of the "ratio of actual real GDP to phased trend." Objectors will say that the trend itself reflects demand deficiency.

To which one can only reply that more detailed investigations of particular industries produce similar results. In the UK direct responses by the Confederation of Business Industry's quarterly survey show capacity utilisation very much higher than labour utilisation.

The emergence of capacity constraints helps to make sense of another OECD finding. This is that while there has been a trend rise in the U.S. "general government" budget deficit, there has been a trend decline in other major countries, and very little overall movement. Thus the worldwide rise in real interest rates is unlikely to reflect budget deficits, but it may well reflect capacity constraints.

Capacity may have been scrapped because it was obsolete or because of the severity of the last recession, or a mixture of the two. Over the longer term, business investment has had the deliberate object of saving the expense and trouble of employing labour.

The number of jobs is not rigidly determined by capacity even in the short term. The tighter the capacity constraint, the more important is wage flexibility in pricing people into jobs in those services, trades or light industries where physical capacity matters less or in subsidiary activities such as maintenance of cleaning. These may not all be good jobs, but they are better than "no jobs."

If there are to be more jobs paying other than cut-price wages, there will clearly have to be investment. Not, however, any old investment, but investment designed to produce more output rather than just the same output more efficiently—in economist's jargon "widening" and not just "deepening" investment.

If this is to occur, it will be important for the recent improvement in the rate of return on capital and the share of profits in national incomes to become consolidated and continue. A similar improvement in the late 1970s proved a mere cyclical peak, before descending again in the severe recession of the early 1980s.

This is necessary for the obvious reason that investment is closely related to profits. The less obvious but even more important reason is that investment will only be "widening" and labour-using if labour costs—both financial and psychological—make it once more a worthwhile proposition for business to think of taking on more workers.

A swing in rewards from labour to capital is socially regressive only if capital ownership is more concentrated than income from work. This is the case at present, but is not inevitable. Real, as distinct from pseudo-radicals, will concentrate on reforming capital ownership rather than in interfering with the effects of market pressure on relative rewards.

Letters to the Editor

The views of Keynes

From Lord Kaldor

Sir,—It is Mr Juby (May 28) who needs more instruction on Keynes's views concerning real wages and employment. For subsequent to the General Theory he published an article on the "Relative Movement of Real Wages and Output" in the March 1939 number of the Economic Journal in which he reconsidered the issue as a result of the evidence submitted by Dunlop and Tarshis and withdrew his earlier dogmatic assertion quoted in Mr Juby's letter. Indeed my statement that "since 1935 at any rate" real wages and employment were positively correlated and not negatively was partly based on information provided on p38 of that article.

However, I have no doubt Mr Juby is right that in times of insufficient effective demand like at present it is the small business sector which suffers most, and this will have worse effects on employment if the wages of employees are not reduced in line with lower earnings. But this is a far cry from saying that an increase in employment brought about by an increase in effective demand will increase prices relative to wages.

Nicholas Kaldor.
King's College,
Cambridge.

Options for the members

From Mr R. Stancomb

Sir,—While agreeing with Mr Rik Edwards' letter of May 30, that the Stock Exchange council took an unwise and arbitrary decision in preventing the 140 new Stock Exchange members from voting on June 4, it is too late to expect the council now, in its beleagured position, to change its mind and reverse this decision. Nevertheless should, as I think likely, the voting be a close-run race particularly on Resolution 2, and the margin for or against is within 140 votes either way, then all hell will break loose on the council, as it will be seen by some as a sophisticated form of ballot rigging to have denied the new members their votes.

However, perhaps the most incredible sop of all is that, having previously made it a condition that all new members should pass four Stock Exchange exams before being considered for membership, this has now been suspended since April 1985 in order, I conclude, to pacify some potentially troublesome new members, who might object to having been denied their vote.

If some members, who seeing both the options as basically unattractive but planning to acquiesce reluctantly and vote "yes"—ought to either not vote at all or say "no" and have the courage to back their judgment.

Richard Stancomb,
The Round House,
Netton, Salisbury.

Small investors' applications

Sir,—The wider share ownership lobby is clearly going to be very irate at the basis of allocation of shares by Wold plc.

This issue was certainly aimed by the sponsors to woo the first-time or small investor. A minimum application for £95 worth of shares is almost unheard of nowadays. The end result was a massive over-subscription and no allocation of shares for those who applied for the minimum 100 shares.

The ill-will caused by the sponsors will do the City image no good at all.

Ian Finer.
24 Jesmond Way,
Stanmore, Middlesex.

Unity of purpose in Europe

From Mr F. S. Law.

Sir,—Your three articles of Friday, May 24, all dealing with aspects of European Community matters, showed an insight into European affairs rarely achieved by the British Press.

In your leader "Democracy in Europe" you rightly point out that a powerless Parliament is a "paradox or worse" and you advocate an increase in the powers of the European Parliament, a point of view I share entirely. It needs, however, an act of political faith by the governments of the Ten (and shortly 12), which they seem to loath to make, as it would diminish the powers of the Council. Parliament should at least have the right and duty not only to reject the Community budget, but to be able to act positively.

You have advocated in the past that the UK should join the EMS; again one must agree, and it is hoped that the latest efforts, as reported by Quentin Peel, by Tory MEPs with the Chancellor, will finally persuade the Government of the practical advantages such a move would have. But perhaps even more important is the psychological effect this would have on our partners, thus showing our total commitment to the European Community.

Finally you reported the failure of the 10 transport ministers, despite the sharp reprimand by the European Court, to reach any decision on drivers' hours. It is a disgrace that a common transport policy still seems years away from becoming reality.

Much time and effort by the Commission officials, by individual transport officials in all the member states, careful and well prepared briefs, suggestions and opinions put forward by MEPs and particularly by the Economic Social Committee, have so far produced nil results, and yet it is possible to reach acceptable proposals. The economic and social committee, whose work is not mentioned often in your own columns and that of your "confrères," produced an excellent compromise solution on drivers' hours. Of course there had to be goodwill by both employers and employees, by the representatives of the various member states, but the end result was acceptable to all. So why did it take the transport ministers all day not to reach a decision?

If we cannot reach a decision on a matter such as drivers' hours, how will we ever achieve a European transport policy?

F. S. Law.
61 Cadogan Square,
London SW1.

Stock Exchange votes

From Mr Charles Emery

Sir,—With reference to the moan by Mr Rik Edwards that new Stock Exchange members have no vote, what about those members of 20, 30, 40 or more years' standing? They get nothing more than a member of two years' standing, despite having spent their years building up the exchange to what it is today.

Charles Emery,
Capital House,
22, City Road, EC1.

Conflict over aid and trade

From Mr P. Hodgson

Sir,—I refer to the article by Christian Tyler, headed "British wrangle over aid for trade," published in your paper on May 24.

As financial adviser to Projects and Export Policy Division, part of Department of Trade and Industry, from 1981 to 1983, I was deeply involved in the seemingly endless debate over the Aid and Trade Provision, and the question of conflicting interests between commercialism on the one hand and developmental criteria on the other. I know of no other major exporting nation which would agonise over such matters for so long.

No donor country can afford to ignore the commercial potential of its aid and indeed some even argue that such a diversion of resources is only acceptable to domestic public opinion if there is clear evidence that both parties benefit from its use.

Underlying this debate is the fundamental issue of what should be the UK response, given our limited resources, in the face of the increasing use by other countries of the technique of "mixed-credit." The UK has a smaller proportion of its total aid programme devoted to bilateral aid than any of our main competitors. Bilateral aid is the form of aid most amenable for donors to bias towards their own purposes. So, when so many developmentally desirable investments can equally have commercial benefits for the donor, the scope for our competitors to use aid to further their industries market penetration is much higher than ours.

The declared position of the Government is that it will retain a capability to act in this area while working towards phasing out this practice multilaterally. Any other action would be nothing short of disastrous in an increasingly competitive world.

Professor Toye's opinion that the use of ATP has been in support of "ducks with perambulation difficulties" is a nonsense. Leading and highly competitive companies have obtained major contracts for the UK and to the benefit of a wide range of small subcontractors throughout the country on whom we now rely so heavily to create new employment.

There are already in place many safeguards for the use of ATP for only developmentally and economically sound projects. Indeed the much criticised delay in obtaining approvals for the use of ATP are due to these established "hurdles" which give rise to copious opportunities for further debate on individual cases. Professor Toye's proposals that aid should only be available after projects have been put out to open and competitive tenders shows his lack of understanding of the way in which developing countries now play the "credit game." It is already proposed within OECD that there should be a reporting procedure when aid offers are made. Whether this will prove a meaningful weapon in attacking the practise is yet to be seen.

When will people like Prof Toye realise that without export trade this nation will not be able to afford the luxury of an aid programme at all—be it pure or otherwise.

Patrick Hodgson,
Executive Director,
Major Projects Association,
Templeton College,
Kennington,
Oxford.

FINANCIAL TIMES

Monday June 3 1985

Terry Byland on Wall Street

Prospects prove appealing

THE prospects for lower interest rates and cheaper oil were underpinning enthusiasm on Wall Street by the end of last week. Yields at the long end of the bond market *had tumbled by about 30 basis points* by Friday night and the airline stocks, the immediate beneficiaries from lower crude prices, helped drive the Dow Jones Transportation average to new peaks.

And yet, as IBM rather grudgingly admitted, the outlook from the corporate boardrooms of America is not entirely cloudless. If the economy is slowing down, then the outlook for company profits is slightly suspect – even by those who believe that *the second half of the year will* bring better news.

Indeed, last week's net rise in the stock market came only after investors had decided to brush aside the poor performance of the high-technology sector, which saw some hefty losses on Thursday as the market tried to puzzle out what it thought about IBM.

It looks as though advance from 1300 will continue to be sector driven, with some sectors left on the sidelines as investors pick out those areas with most to gain from current economic trends.

Retail stocks, food and beverage issues, *rail issues and farm equipment* stocks – and several other sectors – have lagged behind the general rise in the market. The leading industrial market yardsticks, the Dow Jones and Standard & Poor's indices, are not necessarily the best guide to such a fractured market.

Bank stocks, for example, have risen strongly since the final quarter of last year and now show far and away the best return on portfolio investment at 26.2 per cent for the year to date. The heavyweight New York banks have fared best, as they have twice postponed reducing prime rates until well after the slump in short-term rates had slashed their own cost of funds.

Investors now ask themselves whether these stocks have any further bounce left in them. At Smith Barney, Mr Marshall Acuff points out that, measured against the S & P 500 index, bank stocks are now returning yields comparable with those optimistic days of the mid-sixties when Opec and Latin American debts were unknown as investment factors. Bank stocks now yield 118 per cent of the return on the S & P 500, compared with about 160 per cent of S & P in the dark days early in 1984.

It would probably need a significant and lasting solution to the international problem loans to justify a further advance in bank stocks. Investors should be wary of the sector's brush with profit-takers last week.

But there are other areas of the financial sector which have not yet responded fully to falling interest rates. The regional banks, once Wall Street's favourites, have been brushed aside by the money centre stocks since the turn of the year. The savings and loan groups have been held back by the tremors in Ohio and Maryland, while life insurance stocks have lagged behind the rest of the insurance sector.

In the case of the electric utility companies, returns so far this year have also been excellent at more than 17 per cent, but a comparison with the S & P yield suggests that there may be further benefits in store for stock prices. The electric utilities now yield about 220 per cent of the S & P yield. But utilities have traditionally offered a significantly lower return than industrial equities, and this trend is likely to reassert itself as U.S. industry slows down and the utilities benefit from lower interest rate charges. The rise in utility stocks may not be over yet by a long way.

Another sector apparently out of line is the pharmaceutical industry, where stocks are traditionally measured in terms of price earnings multiples, as befits stocks bought for growth rather than for income.

Earnings multiples on the pharmaceuticals are still surprisingly low at only about 130 per cent of the multiple on the S&P 500. In the past the relative spread has been well *above the 200 mark. The difference* between the two reflects the effect on pharmaceutical earnings of a strong dollar.

The joker in the pack is the takeover sector, which has now spread from the oil sector to the consumer areas, where Nabisco brands has become the market's appointed target stock. The pandemonium in the oil sector, which has been driving oil stocks ahead despite expectations of lower crude prices, may now be coming to an end – if only because Unocal seems to have shown the way to foil some of the cruder predators.

But barring any outburst of bid fever among the food and retail issues these sectors are expected to remain sluggish against the market's trend.

Opec ministers discuss cuts in output and price

BY IAN HARGREAVES IN LONDON AND KATHY EVANS IN TEHRAN

SENIOR ministers from the Organisation of Petroleum Exporting Countries met in Saudi Arabia yesterday at the start of what promises to be a long, hot summer of meetings to discuss possible cuts either in output or the price of some grades of crude oil.

As spot market prices continue to weaken into the summer demand trough, pressure is growing on Opec to cut official prices of at least heavy grades of crude. A formal decision, however, is unlikely to be taken before the next full meeting of Opec ministers in July.

In an interview published in a Saudi newspaper at the weekend, Sheikh Ahmed Zaki Yamani, the Saudi Oil Minister, said he would continue to defend Opec's official pricing structure agreed in January, but hinted that there could be a change in heavy crude prices.

"The matter is subject to price differentials, which influence the prices of various types of oil and which fluctuate upward or downward according to the movement of prices of petroleum products worldwide," he said.

Since the January agreement, which ratified an earlier increase in the price of Arabian Heavy from $26 to $26.50 a barrel, heavy prices have fallen sharply following the end of the UK coal strike, which had boosted demand. At the end of last week, the spot market price for Arabian Heavy was around $25.25.

The price of Arabian Light is also out of line with current market levels, with an official price of $28 and *a spot price of $26.80*.

Ten Opec ministers are in the Saudi resort city of Taif for the latest round of meetings, which involve a ministerial executive council, which took place yesterday, and the market monitoring committee, which meets tomorrow.

They are expected to focus on the problems of weak oil demand, overproduction by some members and the damage being done to Opec's pricing mechanisms by large-scale oil barter deals at discount prices.

As part of its pitch for the next round of Opec negotiations, one of the leading participants in oil barter, Iran, claimed at the weekend that it had reduced its oil production to 1.5m barrels a day (b/d) and had cut back sharply on barter.

"We have found that barter has damaged our exports in the market and in future only about 10 per cent of our oil will be sold in this way," said Mr Karamulla Mirzaei, newly appointed head of international affairs for the National Iranian Oil Company.

The decision follows pressure from purchasers of barter oil to renegotiate around $1bn of recent deals to reflect falling oil spot market prices.

If Iran were to cease barter trade and price discounting, it would find it extremely difficult even to sell as much as 1.5m b/d of oil, which involves exports of 0.8m b/d.

It seems likely that Iran's purpose in proclaiming such a low output figure, which compares with its permitted quota of 2.3m b/d, is to add to the pressure for more general production discipline within Opec.

Ethylene prices rise as plant accidents cut capacity by 10%

BY TONY JACKSON IN LONDON

ETHYLENE and propylene prices are rising sharply as the result of an extraordinary series of accidents at chemicals plants across Europe.

Esso's ethylene cracker at Stenungsund in Sweden was put out of action on May 16 by the collapse of its cooling tower. Three days later Italian producer Enichem's cracker at Priolo in Sicily was damaged by fire. Together with the explosion at the Rheinische Olefinwerke (ROW) cracker in West Germany in January, the accidents have taken out 10 per cent of Europe's total ethylene capacity.

Enichem says that as a result prices of both ethylene and propylene – also produced by all three crackers – have risen by more than 10 per cent in the last 30 days. "We would expect prices to rise further – perhaps by another 5 to 10 per cent – before the start of the summer season," an Enichem official said.

In the light of acute European overcapacity in ethylene – amounting to perhaps 30 per cent before the accidents – there is considerable speculation as to how much of the lost capacity will be replaced.

The Enichem cracker, with an ethylene capacity of more than 600,000 tonnes per year, will be out of action for a number of months or possibly a year. The company is looking at the option of reopening a mothballed plant at Gela in Sicily, and stepping up production at another at Porto Torres in Sardinia. However, even combined, these measures would replace only a third of the missing capacity.

The Stenungsund plant, with an ethylene capacity of 380,000 tonnes, is part of a proposed sale by Esso of some of its chemicals assets to Statoil of Norway. "We expect the takeover to take place by the fourth quarter of this year," Esso said. "But we will have the cracker repaired by the end of this month."

Shell and BASF, joint owners of the destroyed 200,000 tonne ROW cracker, had previously expressed the firm intention of rebuilding it. However, it seems likely that plans have been changed by recent events.

The situation is complicated by the actions of the Saudis, whose huge new polyethylene plants came on stream earlier this year, prompting fears that the European market would be swamped by low-cost production from Saudi Arabia.

Tokyo eases finance market rules

BY CARLA RAPOPORT IN TOKYO

JAPANESE Government officials and leading financial institutions took further important steps at the weekend toward relaxing the regulations surrounding Japan's financial markets and boosting the use of the yen in international finance.

The steps included:

- The establishment of yen-denominated banker's acceptance market, which will give exporters and importers another means of short-term financing and most likely increase the use of the yen in world trade.
- The start-up of full-scale trading in government bonds by Japanese banks and five foreign banks.
- The announcement of plans by Japan's big five commercial banks to launch their first foreign currency convertible bond issues on the Euromarket in July.

The Bank of Japan said that about Y62bn ($248m) in trade took place in the banker's acceptance (BA) market on Saturday – its first day. The market involves the sale of yen-based trade financing bills, which are accepted by banks. Banks sell them to investors and use the funds they raise, in turn, for trade finance.

The Bank of Japan, the central bank, said that interest rates on one to three month BAs averaged 6.2 to 6.3 per cent, slightly lower than rates on other short-term debt instruments such as certificates of deposit (CDs).

Currently, only about 3 to 4 per cent of Japan's imports are paid in yen, with only about 40 per cent of its exports billed in yen. Bank officials are hoping that the new short-term instruments will help promote the use of the yen in both imports and exports.

Also on Saturday, Japan's Finance Ministry gave permission to 50 more banks, including five foreign banks, to deal in government and other public bonds.

At the same time, the Finance Ministry also approved dealings in CDs by 63 Japanese and eight foreign securities firms. The Japanese firms were also given permission to extend loans of up to Y2m with government bonds posted as security.

The eight foreign securities firms in this market include Merrill Lynch, Smith Barney and Salomon Brothers.

Assad may propose Lebanese talks

Continued from Page 1

is that Mr Berri is having great difficulty pacifying the camps, and Palestinian leaders in Damascus vow to "fight to the last man" if their demands for a continuing security role for Palestinian fighters in the three refugee camps are not met.

"Of course, we are prepared to fight to the last man," Mr Jamil Hilal, spokesman for the Moscow-oriented Democratic Front for the Liberation of Palestine (DFLP), said. "What do we have to lose? What guarantee do we have our men will not be massacred?"

Looming large in the minds of Palestinian leaders are the massacres in Sabra and Chatilla in September, 1982, at the hands of the Christian militia when the camps were undefended.

Mr Hilal said the Palestinians could "hold out" in Bourj el-Brajneh, the largest camp, for weeks and perhaps months.

In Beirut, Amal militia leaders say they have pacified Sabra and only small pockets of resistance remain in Chatilla. But in Bourj el-Brajneh, there are an estimated 1,000 to 3,000 Palestinian fighters apparently prepared to make a last stand against the Shias.

Mr Berri and Mr Walid Jumblatt, leader of the Druze Progressive Socialist Party, are said to have given their assent "in principle" to the Syrian scheme. But there are few observers in either Beirut or Damascus who believe that peace can be brought to Lebanon without further bloodshed.

President Hafez Assad

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Readings at mid-day yesterday:
C–Cloudy D–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

Focus on hi-tech in Zhao's UK visit

By Colina MacDougall in London

PREMIER Zhao Ziyang of China arrived in London last night for a six-day visit which will include *two* rounds of talks with Mrs Margaret Thatcher, the UK Prime Minister, and lunch with Queen Elizabeth at Buckingham Palace.

The focus of his programme will be on seeing sophisticated industries where Britain excels, with a view to broadening economic ties after last year's Hong Kong settlement between the two countries.

In keeping with this, the Premier's party includes Vice-Premier Tian Jiyun, responsible for economic and financial affairs, and three vice-ministers from the State Planning Commission, the State Economic Commission and the Ministry of Foreign Economic Relations and Trade.

Also accompanying the party is Wu Xueqian, the Foreign Minister, who is expected to have talks with Sir Geoffrey Howe, Britain's Foreign Secretary.

As well as talks on economic questions, the discussions with UK ministers are likely to include East-West relations, arms control, Afghanistan and south-east Asian problems.

The visit is of key importance in providing a basis for a new deeper relationship, Whitehall officials believe.

It is the second visit to the UK, by a Chinese premier (the first was by party chairman and premier Hua Guofeng in 1979) and the second by Premier Zhao, who toured Britain six years ago when governor of Sichuan province. Whitehall sees the visit as potentially more fruitful than either of these. The officials point out that Mrs Thatcher, after two recent visits to China, now knows Peking's top leaders quite well.

Chinese officials regularly repeat that, with the Hong Kong issue out of the way, trade with Britain is set to grow. A favourable background to the visit was provided by the signing on Friday of China's order for 10 British Aerospace 146 aircraft.

Premier Zhao will visit the Anderson Strathclyde group in Scotland, which has supplied China with mining machinery, and high-technology enterprises at the Cambridge Science Park in England.

He will leave on Saturday for a week's visit to West Germany, followed by two days in the Netherlands.

West Germany's sales to China, at more than $1bn last year, were *nearly three times those of Britain* at £317m ($404m).

Robert Thomson in Peking writes: On leaving for his tour of Europe, Premier Zhao denied speculation that he would soon replace Li Xiannian, the President, and that other major changes were planned for the Chinese leadership.

"I have recently read reports in Hong Kong newspapers of possible changes in Chinese leadership. I can tell you that all these reports have no grounds to support them."

Referring to the health of Deng Xiaoping, the Chinese leader, Premier Zhao said: "Chairman Deng *Xiaoping enjoys very good health.*"

Al-Fayeds buy 'friendly' stake in Debenhams

By Martin Dickson in London

HOUSE of Fraser, the UK department stores group, has built up a strategic 4.99 per cent stake in rival stores group Debenhams, which is fighting a £470m ($587.5m) takeover bid from Burton and Habitat-Mothercare.

The entrance of this major new player into the bid battle was roundly attacked last night by Mr Ralph Halpern, chairman of the Burton group. He accused House of Fraser of trying to block the emergence of a "more competitive" Debenhams group which might threaten its position.

House of Fraser, which was recently acquired by the Egyptian Al-Fayed brothers, is understood to have bought the stake because it wants a say in the fate of its major retail rival.

It appears to have no intention of launching a rival bid for Debenhams, which would be costly and would face the threat of a Monopolies and Mergers Commission inquiry.

But the group wants to be well placed to bid for any Debenhams assets which might be sold off as part of the management buy-out which Mr Robert Thornton, Debenham's chairman, is considering as a last-resort defence against the Burton bid.

House of Fraser bought about 7m shares, costing around £27m, in an operation that lasted just over a week and ended on Friday night, when Debenhams was informed of this "friendly" holding.

Chirac seeks cut in state role

Continued from Page 1

ment but unable to rule on their own. Their policies would thus be tempered by those of the other opposition groups.

M Barre believes that promises of early tax cuts are irresponsible as they would lead to a further widening of the budget deficit.

In proposing the "shock" measures, the Gaullists have in mind both the precedent of Mr Reagan's success in the U.S. and de Gaulle's return to power in France in 1958 which injected fresh confidence into the economy. De Gaulle rapidly put through an economic package that included a devaluation

THE LEX COLUMN

A crossroads in Throgmorton St

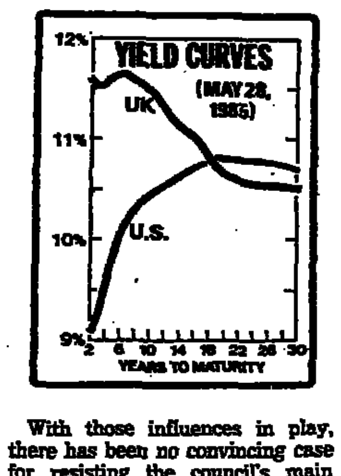
If the London Stock Exchange votes on Wednesday go against the proposed membership reforms, that would represent a victory for envy and nostalgia. An apparent choice to delay or prevent the changes – permitting outsiders to own the whole equity of a member firm, and making membership essentially corporate rather than personal – would really amount to no more than an ostrich gesture of distaste for the inevitable.

The more respectable part of this resistance is its regret for the dismantling of a dealing system – broker-jobber separation – which had for many years managed to produce a tolerably fair and liquid market in most securities. The fact that it did so without the need for the bulk of firms to operate on a large capital base, and gave an inbuilt protection to investors without the need for expensively-patrolled Chinese walls, is ample explanation for the remaining objections to its demise.

If there were anything to be gained by picking over the carcass of a lost campaign against the Department of Trade, the haggling could reasonably focus on the so-called "link argument" by which the Stock Exchange Council insisted that if fixed and excessive commissions were to become negotiable, *then the dealing system would have* to be replaced by dual-capacity, with all its inherent conflicts of interest.

Had the exchange been quick enough to concede the original complaint – that gilt-edged commissions were too high – then it might possibly have escaped the wrangling about whether high commissions amounted to an illegitimate collection of monopoly rent. There was surely a period when the single-capacity dealing system might indeed have been saved – for a few years – by an undertaking to reduce gilt-commissions to a competitive level.

It is arguable, however, that the internationalisation of securities markets would eventually have undermined the old dealing structure, and hence the central market, even if the Exchange had been more successful in its plea-bargaining with the Office of Fair Trading and Mr Cecil Parkinson, former head of the Department of Trade. With the end of exchange controls, the London equity market has enjoyed less of a captive audience among UK institutions, while the growing U.S. interest in geographical diversification has already taken the active market in a number of British blue-chips to New York.



With those influences in play, there has been no convincing case for resisting the council's main strategy; the dual capacity firm, trading on an international front, could not hope to be competitive on a world scale without the injection of outside capital. Thus the 100 per cent ownership resolution is in every sense the crucial step towards equipping the market for *life* in its new competitive environment. If it should fail, which seems improbable, the chances of saving a viable *central market from the wreckage* are remote; and the incentive for large international houses to rely on extending their telephone dealing systems outside any organised or regulated market would be irresistible.

Envy of course crept in when members of firms outside the top 20 or so found themselves looking in on a privileged auction. Although the strategic purpose of the alliances between the big brokers or jobbers and their new partners in banking or insurance was to bring the necessary outside capital into the re-defined and more capital in*tensive market-making activity*, it was inescapable that the upper crust of the stock exchange had extracted a large amount of equity from their firms.

For those who had no direct interest in a saleable property – which includes most of the small broking firms doing standard agency business for private clients and for the smaller provincial institutions – it was natural to see the goodwill as being withdrawn as much from the exchange itself as from the specific business being injected into the new securities combines. The demand that every stock exchange member be able to cash in was as natural as it was hard to meet.

The council's response in Wednesday's second resolution – giving effect to a market system for transferring membership shares – is a compromise which tries to limit the cost of entry for outside firms to less than deterrent levels while allowing the existing members to realise something for their highly notional interest in the equity of the exchange. Since the council has at *least yielded on the principle* of tapping the shares out at £2,000 – properly allowing the market to price them instead – the issue may not be as contentious as it was.

It is a delicately balanced matter, all the same, given the 75 per cent majority required. But if the resolution is voted down, the result is more likely to be disorder than delay. It is the outer ring of stock exchange firms – not the inner circle – which has most to lose from frag*mentation of the central market*place. And in the last resort this proposal gives members a rare opportunity to withdraw some equity from a cartel just as it is being formally busted. It is not a chance which they should pass up.

Bond flows

Domestic investors in gilt-edged may find it hard to believe that there is money to be made out of *the steeply* declining *yield* curve which has characterised the market for many weeks past. Given the apparent drift of bad money figures towards inevitable overfunding, that scepticism may be hard to overturn. Yet from an international perspective, it would appear that total returns on UK government securities may be looking relatively attractive.

At the short end of the market there is an arbitrage of at least a couple of points between gilts and U.S. Treasuries, and the gap is still significant – although less and less profitable all the way out to 15-year *maturities. If the sterling/dollar* rate could be counted on to remain stable, there would appear to be something for bond investors to go for.

Whether that means the authorities can look forward to selling serious quantities of stock to foreigners – principally to the Japanese who have done so well out of their Treasuries since yields started to fall last year – is not obvious. But if the UK market took in only a fifth of the total Japanese and West German bond-investment outflow, Wood Mackenzie estimates that it would probably be absorbing a cash flow of £400m a month. That scarcely abolishes the domestic pressure to fund, but it should help to keep funding costs down – if still rather higher than was assumed in the budgetary arithmetic.

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SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday June 3 1985

INTERNATIONAL CREDITS

Argentina faces new repayments crisis

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN LONDON

A NEW crunch is looming this week over Argentina's efforts to restore order to its foreign debt. Unless an economic programme can be agreed with the International Monetary Fund by next Monday, the Government of President Raul Alfonsin risks seeing its debt being declared "value-impaired" by U.S. government agencies responsible for supervising the banking system.

Such a declaration would force U.S. banks to make provisions against losses on their Argentine loans. Worse still, in the eyes of many bankers, it could ruin any short-term chances of completing the $4.2bn loan package agreed last year by leading creditor banks as a means of financing the country's current payments gap. As a result, interest arrears on public sector debt which have already topped the $1bn mark could mount inexorably.

Already a frenetic round of activity has begun in the hope that Argentina will once again pull back from the brink. While talks continue with the IMF in Washington, the committee of leading creditors chaired by Citibank is to meet with top Argentine negotiators in New York tonight. The bankers will press Argentina to make at least some interest payments to pull its arrears, which presently stretch back to November 14, back within the critical 180-day mark.

But Sr Mario Brodersohn, Argentina's chief negotiator, has already told them that his country has no money to pay at the moment. Moreover he also faces another problem in the form of the failed Banco de Italia, which has foreign debts of $250m. These creditors may refuse to go along with the $4.2bn rescue package unless the debts are honoured.

Argentina thus badly needs to conclude its IMF agreement this week as it is the only way of unlocking fresh credit, initially in the form of possible bridging finance from other Latin countries. Without an IMF deal, the U.S. regulators would have little option but to downgrade Argentine debts when they meet on June 10.

The main fear now is therefore of a downgrading which, in the words of one banker, could cause Argentina's elaborate rescue package to fall apart, jeopardising other debtors' hopes of relief and producing a contagious loss of confidence that could ultimately threaten the banking system itself.

Because of this, the regulators are in an acutely difficult position. On the one hand they have to react to Argentina's late interest payments and failure to agree with the IMF; on the other they may not want to take a decision that would close the door indefinitely. For this reason bankers are hoping that any downgrading will be softened, possibly limited to the less damaging "sub-standard" category and possibly with a simultaneous promise to rescind the classification if an IMF agreement is eventually reached.

The Eurocredit market itself was last week dominated by a further string of successes for East European borrowers. Hungary launched a new $100m credit to tap excess demand generated by its recent World Bank co-financing. National Westminster doubled to $200m the credit it is leading for Bulgaria, while Deutsche Bank increased its credit for the Soviet Union to $300m from $200m. Also to be increased is the latest $200m deal for East Germany which has been more than twice oversubscribed in syndication.

Arco, the U.S. oil company, has raised a $400m note facility on undisclosed terms through Morgan Guaranty, while CCF has launched a $200m, seven-year CD issuance facility with an annual fee of 10 basis points and a maximum standby margin of 25 points depending on how much is drawn. The deal is led by itself with Bankers Trust and Morgan Guaranty.

INTERNATIONAL BONDS

Falling U.S. rates hit Eurodollar deals

BY MAGGIE URRY IN LONDON

GONE are the days when a borrower could price a Eurodollar bond issue well below U.S. Treasury bond yields. For that sort of deal the Antipodean dollar Eurobond markets are now the place to go.

That simple distinction explains a lot of the action in the Eurobond market last week. The volume of new Eurodollar deals was low by the standards of recent months. Despite good investor interest – and now a real shortage of the right quality paper – which should encourage borrowers into the market, the difference between yields in Europe and the U.S. Treasury market are such that basic interest rate swaps do not work. Swaps are priced off U.S. Treasury yields and the U.S. market has been moving up much more strongly than the Eurodollar market.

One way round that problem is to launch a partly-paid issue. The investor only receives his coupon on the amount he puts up – getting lower money market rates on the balance until the final payment date. That way the borrower can make the swap work.

Investors can do well out of partly-paid deals if the dollar falls before the final payment. But the critics of last week's deals pointed out that there are more efficient ways of taking an option on the currency.

The Nordic Investment Bank issue not only got in first, but also came with a coupon which would have looked right on a fully-paid deal. It met some good demand and was trading well by the weekend. But the EIB deal came on tighter terms – just too tight said dealers, though the firm market was helping the issue by the end of the week. Also tight were Austria's terms for a partly-paid zero, which was trading at a discount around its 1¼ per cent commissions on Friday. That does give the extra gearing of a zero, though.

Syndicate managers were expecting, but not looking forward to, more partly-paid issues this week.

By contrast Alcan Aluminium (Canada) brought an old-fashioned unswapped Eurodollar deal on Friday.

Meanwhile, seemingly vast demand for the high interest rates and possible currency gains offered by Australian and New Zealand dollar Eurobonds have pushed both markets higher. There are few enough issues outstanding to make price movements erratic and some Australian dollar bonds were showing gains of as much as five points last week, though 1½ points was a more normal amount.

It was up, up and away for new issues, with lead managers rapidly increasing the size of deals on Friday. Orion Royal Bank added A$20m to the A$40m issue for ANZ Banking, and launched and increased a deal for GZB of Austria. With yields on five-year Australian government bonds around 14 per cent on an annual basis, swaps obviously work well.

Nissho Iwai's issue proceeds are thought to be being passed on to other borrowers, and the issue will probably not be increased.

New Zealand dollars were not to be left behind and Banque Gutzwiller raised its issue for Rural Banking and Finance from NZ$25m to NZ$40m. On Friday afternoon Morgan Stanley launched what quickly proved to be the largest New Zealand dollar Eurobond issue yet when an issue for Denmark was raised to NZ$60m from NZ$50m within minutes of launch.

With institutional as well as private investor demand being seen, these markets could go even better before the bubble eventually bursts, and more deals are expected.

The European currencies were not left out of the rising market. Indeed an issue in European currency units these days seems unable to fail despite lower and lower coupons. Banque Paribas twice established a new low, first with a 9 per cent coupon for Sumitomo on Thursday and then an 8¾ per cent rate for Olivetti on Friday. Even so the deals were selling well within their fees.

With expectations of lower interest rates in the U.S. spreading to the Ecu, and investors looking for a fall in the dollar too, Ecu bonds are doubly attractive.

The more recherché corners of the Eurobond market were also performing well last week. The latest Euro-French franc issue was launched for IBM France and quickly increased from FFr 500m to FFr 700m. The merits of a queueing system are being displayed here – the next deal will be for Sweden in mid-June, by which time demand should have rebuilt again.

The D-Mark primary market was active last week, and the latest floating-rate note issue – for BNP – was trading close to par. The next floater is due today, for Ireland. Foreign-owned banks are beginning to get in to co-lead manager positions, though a foreign book runner has yet to be sighted. The secondary market was quieter last week with turnover low and prices slightly firmer.

Syndicate managers are expecting another busy week. Japan Air Lines is due to launch an issue today in Eurodollars, as is Nippon Kangyo Kakumaru with a convertible – the first for a Japanese securities house other than the big four. Credit Suisse First Boston is planning an Ecu issue for Mitsui Trust, likely to have a 9 per cent coupon and 100½ issue price for an 8½-year life. More deals are coming in the Swiss franc foreign bond market too, with SBC to bring a public issue for the State Commission of Victoria, and Banque Gutzwiller likely to announce two deals.

● As the non-U.S. dollar sectors of the Eurobond market gain in importance, Lehman Brothers has hired Philip Howard from UK stockbrokers Phillips & Drew to set up a sales, trading and research department to cover D-Mark, Dutch guilder, Ecu and yen bonds.

Bankers poised for Euroyen floaters

BY OUR EUROMARKETS CORRESPONDENT

SCARCELY has the dust settled on the latest round of Japanese financial liberalisation but Japanese bankers are already bracing themselves for further innovation.

Following the launch on Saturday of a domestic bankers acceptance market and the expansion of trading in yen certificates of deposit, Ministry of Finance officials now say they are poised "in the near future" to permit floating-rate notes to be launched in Euroyen.

The news has caused a flurry of excitement among Japanese securities houses. With half an eye on the exuberance surrounding the launch of a D-Mark FRN market last month, they are now actively seeking suitable borrowers.

Hopes are high that a Euroyen FRN market could offer a way out of the dilemma that marked the opening of the Euroyen credit market in April. Then the Japanese banking community rejected a Y100bn credit from Sweden on the grounds that its ⅛ per cent margin was too low.

Floating-rate notes, the argument goes, traditionally carry lower margins than credits, and it ought therefore to be possible to agree terms that are acceptable both to the market and to prospective borrowers.

And given the seemingly insatiable demand among Japanese banking institutions for dollar FRNs, it ought to be easily possible to market large deals in yen as well.

But initially, at least, the securities houses still face the daunting task of persuading borrowers to take the plunge. This market needs a top quality sovereign borrower such as Australia or New Zealand to get it off the ground, bankers say. After the Swedish debacle few of them appear willing to put their prestige on the line for another Japanese experiment.

Meanwhile the Ministry of Finance also announced another change on Friday. It is to allow commercial banks to issue foreign currency-denominated convertible bonds for the first time. This should permit them to secure low cost funds and add to their capital while diversifying their range of shareholders.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
U.S.$	2,404.7	421.4	803.8	25.3
Prev	980.6	8.1	2,157.3	62.5
Other	1,288.0	0.6	1,110.2	13.1
Prev	348.0	1.2	8.4	0.4
Secondary Market				
U.S.$	20,117.4	762.3	10,803.4	1,463.2
Prev	21,664.0	750.8	10,802.0	1,561.5
Other	2,852.4	52.2	305.1	1,096.3
Prev	3,171.5	162.2	367.9	1,144.2

	Cedel	Euroclear	Total
U.S.$	12,840.7	23,761.2	36,601.9
Prev	12,212.1	25,774.8	37,986.9
Other	3,141.3	3,577.0	6,718.3
Prev	2,928.5	2,275.5	5,204.0

Week to May 30, 1985 Source: AIBD

Shake-up for Apple as profits fall back

By Paul Taylor in New York

APPLE, the U.S. West Coast personal computer group, is planning a major management reorganisation and corporate streamlining which will eliminate the day-to-day operating responsibilities of Mr Steven Jobs, the group's co-founder and chairman.

The move appears to represent an urgent attempt by Mr John Scully, the president and chief executive, to assert his leadership at a time when the group is plagued with problems. Apple's earnings have plunged in recent months – in part reflecting weakness in the U.S. computer market.

Under the restructuring, which Wall Street views as an attempt by Apple to begin a transition from its entrepreneurial origins to a more conventional management structure, two separate product divisions will be reorganised into single manufacturing and marketing divisions responsible for all Apple products.

Mr Jobs, who has been general manager of Apple's Macintosh computer division, will remain only as chairman of the group, taking on what the company described as a more global role in product development and corporate strategy. Mr Jobs also remains Apple's largest shareholder.

Apple has suffered recently both from a general downturn in U.S. personal computer sales, which has hit all the big manufacturers, and from problems within the company itself. Analysts expect the group barely to break even in the current quarter ending June 28.

Responding to these pressures, which have sent its share price reeling, Apple has already attempted to reduce costs by scaling back advertising, ordering temporary factory closures, dropping its ill-fated Lisa computer and eliminating more than 1,600 jobs. The latest move is likely to result in further job cuts.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

CORPORATE FINANCE

Advisers find business brisk in Hong Kong

"WHAT we do is financial engineering," says Mr Jim Hunter, head of Citibank's treasury management operations in Hong Kong. "I see us as problem solvers, asking what the particular needs of customers are, and how they can be met."

No matter what the need — whether it is protection against a foreign-exchange risk, reduction of high interest rates, or improvement of earnings on invested reserves—the world's leading banks are competing with increasing fierceness in Hong Kong for the lucrative fee-income that can be earned through such specialised services.

Competition that began in the U.S. and Europe has spread rapidly across Asia to find a fertile home in the British colony, where local traders learned long ago that currency fluctuations can strip away all the profits from a potentially lucrative deal.

Treasury managers have discovered a difference between the conservatively managed companies in South East Asia, and those in Hong Kong, where free-wheeling entrepreneurs tend to see their treasury departments as profit centres.

Whatever other reasons intruded, the volatility of Hong Kong's financial markets and of its currency, caused over the past three years by Sino-British negotiations over the territory's future, has concentrated the minds of even the most conservative finance directors.

"Exporters who were offered business denominated in weakening D-Marks or sterling often decided simply to say no to the business," Mr Hunter says. "What they should have done is say yes, and hedge their position on the forward foreign exchange market."

Hedging against currency fluctuations has become less important since the local currency was linked to the U.S. dollar, but this link has led inevitably to increased volatility in local interest rates. The need for improved Treasury management has, therefore, shifted rather than disappeared.

Mr Bill Wavish, who has recently stepped down as finance director of Hongkong Land, the property group which was swept perilously close to bankruptcy in the wake of Hong Kong's property market crash in 1982, has had just such an interest rate problem. He has worked closely with Treasury managers at Citibank and Wardley, the merchant banking group controlled by the Hongkong and Shanghai Banking Corporation, to solve it.

Debts had mounted towards HK$16bn (U.S.$2.06bn). Just HK$4bn of this was medium or long-term borrowing, and a mere HK$1bn carried fixed interest. Mr Wavish comments: "With our kind of debt burden, you couldn't afford to roll over variable money when political crises here were sweeping interest rates up to 30 per cent. A greater proportion simply had to be at fixed rates."

He groans about the bankers who came to him with textbook products concocted in New York or London: "The treasury managers that have been successful have been those who analysed our special problems, and came with solutions tailored to solve them. It would not have taken much homework to discover, for example, that we don't need U.S. dollar swaps—but we still got a lot of offers."

Today, debts have been trimmed to less than HK$12bn. All but HK$4bn is now met by long or medium-term loans, and a total of 16 interest rate swaps have increased to 20 per cent the proportion of debt carrying fixed interest.

"The magic of products like swaps is that everyone emerges feeling he's the winner," Mr Wavish concludes. "I get fixed rate money. The bank lending me it gets a higher rate of return than it could expect on most markets. And the Treasury adviser walks away with a good fee."

David Dodwell

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
U.S. DOLLARS							
Ex-Im Bk of Japan‡	100	1995	10	10⅝	100⅝	Salomon Brothers	10.313
Isetan §	20	2000	15	(3¼)	100	Nikko Secs.	*
Nordic Investment Bk (b)‡	100	1992	7	10½	99¾	Morgan Stanley	10.552
Qantas Airways ‡	140	1995	10	10⅜	100⅛	Banque Paribas	10.334
Olympia & York ‡	125	1990	5	10⅛	100	Morgan Stanley	10.125
Rep. of Austria (b)‡	257.5	1995	10	0	38.835	Morgan Guaranty	9.920
EIB (b)‡	200	1990	5	10	100⅜	Bankers Trust	9.901
Alcan (Canada) ‡	100	1995	10	11¼	100	CSFB	11.250
CANADIAN DOLLARS							
Amex O/S Credit ‡	50	1990	5	10¾	100	Lehman Brothers	10.750
Genstar ‡	75	1995	10	11¾	100	Wood Gundy	11.750
City of Winnipeg ‡	50	1990	5	10⅝	100	Wood Gundy	10.625
AUSTRALIAN DOLLARS							
Nat. Australian Bk ‡	40	1992	7	13⅜	100¼	Orion Royal Bank	13.318
GZB of Australia ‡	50	1992	7	13¼	100⅜	Orion Royal Bank	13.165
Nissho Iwai (Aust) ‡	30	1990	5	13¼	100¼	Schroder Wagg	13.179
NEW ZEALAND DOLLARS							
Denmark ‡	60	1990	5	16	100	Morgan Stanley	16.000
D-MARKS							
SATS ‡	150	1993	8	8	100	Deutsche Bank	8.000
Malaysia ‡	100	1995	10	7½	100	Deutsche Bank	7.500
Fujitsu §	300	1990	5	(2¾)	100	Deutsche Bank	*
BNP †(a)‡	250	1992	7	1/16	100	Deutsche Bank	—
SWISS FRANCS							
Continental Health §‡	35	1995	—	6	100½	Bqe Gutzwiller, K.B.	5.932
EPDC Japan ‡	100	1995	—	5⅝	99½	SBC	5.441
Coleco Industries ‡§	150 max	1993	—	6½	100	Soditic	6.500
Shikoku Electric	100	1995	—	(5¾)	*	UBS	*
Asahi Malleable **	25	1990	—	(3½)	*	Bk Julius Baer	*
Hanwa **¶	70	1990	—	(3½)	*	Swiss Volksbank	*
Eurofima **‡	40	1993	—	5	99½	SBC	5.078
Fujitsu §	150	1993	—	(1¾)	100	Crédit Suisse	*
Fujitsu **§	250	1990	—	(1½)	100	Crédit Suisse	*
Asics Corp. **§	50	1990	—	(1¾)	100	Crédit Suisse	*
ECUs							
Dresdner Fin. B.V. ‡	70	1993	8	9⅛	100¼	Dresdner Bank	9.080
Sumitomo Fin. (Asia) ‡	75	1993	8	9	100¼	Banque Paribas	8.995
Andelsbanken ‡	30	1992	7	9¼	100⅛	Société Générale	9.225
Olivetti ‡	50	1993	8	8¾	100	Banque Paribas	8.750
DANISH KRONE							
DKG ‡	250	1991	6	11¾	100	Copenhagen Handelsbk	11.750
FRENCH FRANCS							
IBM France ‡	700	1990	5	11⅛	99¾	BNP	11.193
YEN							
Quebec ‡	30bn	1995	9	7	99.80	Nomura Secs.	7.930

* Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating rate note. ¶ With equity warrants. ‡ Dual-currency. (a) 1/16 over 6m Libor. (b) Partly paid. Note: Yields are calculated on AIBD basis.

AGA profits advance for first quarter

By David Brown in Stockholm

AGA, the Swedish industrial gas group, announces a strong rise in first quarter profits and expects full year results to exceed earlier forecasts, Mr Marcus Storch, the president, told shareholders.

Profits after financial items climbed to SKr 250m ($28.4m) from the SKr 154m achieved during the same period a year earlier. The result includes SKr 50m in profits from the Tresort investment group and the Uddeholm tooling steel and hydropower group which AGA took control of late last year.

Uddeholm's full-year results will exceed the earlier forecast of SKr 200m, Mr Storch said. Both the AGA gas and refrigeration units will also show strong improvement from the combined SKr 728m achieved in 1984.

In mid-May AGA launched one of the biggest corporate take-over bids in Sweden with its SKr 3bn attempt to raise its stake in Uddeholm o over 90 per cent and gain control over substantial liquid and other assets.

Hokkaido Takushoku

Japan's 13th largest city bank is Hokkaido Takushoku Bank and not Hokuetsu Bank as incorrectly reported last Friday.

BP plan for Seltrust faces legal challenge

BY JOHN McILWRAITH IN PERTH

A LENGTHY attempt by BP to restructure its troubled Australian mining subsidiary, Seltrust Holdings, has been delayed again, this time by a legal challenge.

BP first presented a scheme of arrangement in January, but the Australian minority shareholders rejected it.

A second proposal was approved by the shareholders on Friday. But MIM Holdings is challenging the proposal through the courts so implementation of the scheme will have to await the outcome of legal hearings.

MIM, which has a 40 per cent interest in the Agnew nickel project, claims that part of the scheme would breach a joint venture agreement in which Seltrust is the other participant.

MIM's action is likely to delay the Seltrust restructuring by at least six weeks. Under BP's proposed scheme, about A$23m (US$15.3m) of Seltrust assets would be transferred to a new company, Paragon Resources NL, which would seek a listing on Australian stock exchanges.

The BP scheme gives shareholders the choice of accepting 3.5 Paragon shares and options for each Seltrust share, or 60 cents in cash.

Australian minority shareholders have just under 25 per cent of Seltrust, with BP the balance.

The new company would be given a major interest in a gold project in New South Wales, about A$15.5m in cash, of which A$6.3m would be lent to Seltrust as part of the consideration for the right to buy nickel concentrates.

It is this last condition which has led to the legal challenge. MIM claims that the proposal that Seltrust should buy 9.5 per cent of Agnew's nickel concentrates is an assignment which constitutes a breach of the joint venture agreements.

At Friday's meeting Seltrust's liquidators said that legal advice, confirmed after MIM's summons, was that the nickel transaction did not contravene the joint venture agreement.

If the scheme finally becomes a reality, Seltrust will be wholly owned by BP which would be liable for the mining company's debts of about A$137m (most of which is owed to BP).

It would also retain the 60 per cent interest in the Agnew project and a smaller nearby mining operation.

Mediobanca purchase

BY ALAN FRIEDMAN IN MILAN

MEDIOBANCA, the Italian merchant bank, has acquired Carlo de Benedetti's 13.62 per cent stake in the Pesenti family's Italmobiliare holding group which has interests ranging from engineering and property to finance and steel.

The sale of the Italmobiliare shares comes nine months after Sig de Benedetti acquired the stake following the death of Signor Carlo Pesenti, the Catholic financier who founded Italmobiliare and who was also the largest single shareholder in Banco Ambrosiano.

Sig de Benedetti tried last autumn to persaude Signor Giampiero Pesenti, the heir to Italmobiliare, to form an alliance and recapitalise the heavily indebted company. But Sig Pesenti chose instead to reduce Italmobiliare's borrowings by selling the company's controlling stake in RAS, the second largest Italian insurer, to West Germany's Allianz.

● Nuovo Banco Ambrosiano, the successor bank to the Ambrosiano group, says that thousands of smaller shareholders of Calvi's bank have converted warrants into shares of Nuovo Ambrosiano.

Shake-up at Jungheinrich

BY PETER BRUCE IN BONN

JUNGHEINRICH, the West German privately owned fork lift truck manufacturer, announces sweeping changes to its management, including the departure of the two men traditionally credited with establishing it as the leading European producer of electrically powered vehicles — Herr Klaus Rosenkranz and Herr Walter Gnauert.

The company gave no reasons for the departure of its two most senior executives. They are to be replaced by Herr Winfried Lange and Herr Franz Guenter Wolf, whose wives each own half the company.

At the same time, Hamburg-based Jungheinrich said present management operations are to be shrunk into a simple holding company and the group's robot business is to be spun-off to become a separate automated materials handling and warehouse division, capitalised at DM 10m ($3.3m).

Jungheinrich, which last year took over the West German operations of Eaton-Yale lift trucks, recorded a 15 per cent increase in turnover to DM 737m in 1984.

Farm loans sink seven U.S. banks

BY PAUL TAYLOR IN NEW YORK

NEBRASKA'S department of banking and finance ordered the closure of four agricultural banks late on Friday because of what it described as problem farm loans. The move highlights the continuing problems of the U.S. farm sector and the small banks that serve it.

One of the four banks, the Bank of Taylor, with deposits of about $12.2m in 3,500 accounts, will reopen this morning as a subsidiary of the Union Bank and Trust Company of Lincoln after federal officials arranged a rescue involving $9.6m in federal funds.

The other three banks are owned by Mr Roger Voorhees of Omaha. Their fate was uncertain yesterday, although it is probable that the Federal Deposit Insurance Corporation (FDIC) will also seek merger partners for them.

All four banks were covered by federal insurance, which should ensure that depositors suffer no losses. The latest failures bring to seven the number of Nebraskan banks which have been forced to close their doors this year.

Elsewhere, federal and state regulators closed three other small banks in Arkansas, Minnesota and Oregon, again because of problem agricultural loans. The seven bank failures are the largest number in a single day since the Depression years.

● The Federal Home Loan Bank Board named a new board of directors for the ailing Central Savings and Loan Association of San Diego after efforts to find a buyer for the troubled thrift apparently failed. Central Savings, with $2.2bn in assets and 48 offices, is one of California's 20 largest thrift institutions. It has lost more than $50m since 1981.

U.S. MONEY AND CREDIT

Signs of further Fed easing spur the market

THE CREDIT markets turned in another sparkling performance in the holiday-shortened trading week spurred by further signs of economic weakness and a growing market conviction that if this persists, the Federal Reserve will ease further.

After pausing for breath after the President unveiled his tax reform package, the rally reached a crescendo on Friday as a wave of speculation about a further discount rate cut from its current 7.5 per cent level swept through the markets.

By the close on Friday, bond prices were between 1 and 2¼ points higher on the week continuing the recent bull rally which has sent the yield on the long bond spinning down by almost 75 basis points in just four weeks.

Money market rates also continued to fall, with bank certificates of deposit showing the biggest declines of between 10 and 25 basis points. Yield levels are now about 45 to 65 basis points below their late 1982-83 cyclical troughs. T-bill rates edged lower, with the largest declines posted by longer dated bills resulting in a further slight flattening of the yield curve at the short end.

U.S. MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	7.71	7.66	8.28	11.77	7.66
Three-month Treasury bills	7.13	7.17	7.61	10.77	7.13
Six-month Treasury bills	7.23	7.35	7.80	10.63	7.23
Three-month prime CDs	7.46	7.66	8.30	11.90	7.46
30-day Commercial Paper	7.46	7.50	8.05	11.38	7.46
90-day Commercial Paper	7.50	7.63	8.10	11.40	7.46

U.S. BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	107⅝	+1¾	10.12	10.40	11.06
20-year Treasury	110⅛	+2¼	10.58	10.84	11.30
30-year Treasury	105⅜	+2⅜	10.57	10.84	11.31
New 10-year "A" Financial	N/A	+2¾	10.85	11.25	11.66
New "AA" Long utility	N/A	+2⅜	11.38	11.63	12.25
New "AA" Long industrial	N/A	+⅝	11.25	11.50	12.13

Source: Salomon Bros (estimates).

Money Supply: In the week ended May 20 M1 rose by $4.5bn to $582.3bn.

Once again trading was paced by the latest economic statistics, which included a sharp 11.9 per cent drop in house sales, declines in factory and durable goods orders and a 0.2 per cent decline in April leading economic indicators. All this was coupled with the pronouncements of leading economic gurus and assorted Fed officials.

Mr Preston Martin, the Fed vice-chairman, noting continued weakness in commodity prices, declared that "disinflation is here to stay for the foreseeable future," while two other Fed governors, Ms Martha Seger and Mr Henry Wallich, confirmed that the Fed was currently paying more attention to the dollar and less to M1 in its policy deliberations.

However, Mr Wallich also forecast that the economy was poised for healthy expansion over the rest of the year, and projected that GNP would expand at an annual pace of around 3 per cent in the second half.

Wall Street will be watching Friday's May unemployment number closely for further indications of the state of the economy in the second quarter. In the meantime, the mounting evidence that the Fed is not unduly worried about the recent rapid growth of M1 — which accelerated from a 6 per cent pace in March and April to around 13 per cent in May —is good news for the credit markets.

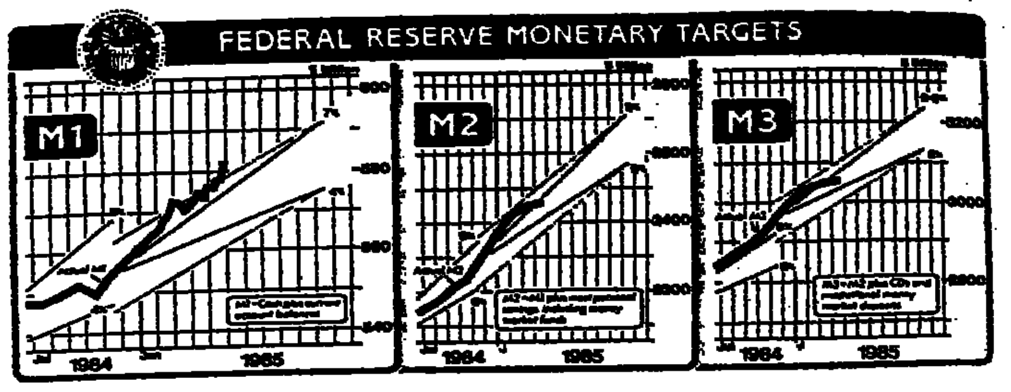
This was reflected last week in the almost non-existent credit market reaction to the huge $4.5bn increase in the basic money supply measure. The view that rapid M1 growth is unlikely to deflect the Fed from its current accommodative stance received the backing of Dr Henry Kaufman of Salomon Brothers in his latest comments on credit.

Dr Kaufman noted: "Whatever the causes of the faster recent money growth, the Fed has clearly indicated that it is not unduly concerned. The reason is that it is focusing on the as yet weak rebound in the economy."

Some senior Wall Street economists have, however, already made up their minds that a further easing in the monetary reins is likely, though they expect the Fed to wait until shortly before or after the June 20 release of the "flash" GNP figure before the next discount rate cut.

Mr Philip Braverman of Briggs Schaedle, who believes the GNP number will come in at roughly 2.5 per cent, is currently predicting a funds mid point of 7.5 per cent "in a matter of weeks, with further reductions in the funds rate and another cut in the discount rate beyond that."

For the moment the credit markets are lapping up such bullish comments. Last Wednesday the markets absorbed $7.01bn of new Treasury five-year notes together with another $1bn of foreign targeted notes without a hiccup. The domestic slab of the offering sold at an average yield of 9.93 per cent and the issue closed the week yielding 9.77 per cent.



In the corporate markets, the flood of new paper continued but still does not appear to have caused any major digestion problems. Most of the $1.9bn in new offerings last week were of intermediate-term finance issues and were well received, while seasoned issues gained about a point on the week. The barrage of new issues looks set to continue.

Among the major new offerings last week Chevron Capital USA sold $300m of 10-year 10⅜ per cent notes priced to yield 10.82 per cent. Ford Motor Credit made a double offering of $100m in 14-year adjustable rate notes and $200m of 10-year 11 per cent paper which was priced at par.

General Motors offered $200m of three-year 9⅞ per cent notes priced to yield 9.76 per cent and $300m of five-year 10¼ per cent notes priced to yield 10.29 per cent. Coca Cola Bottling sold $100m of 12¼ per cent 10-year notes priced to yield 12.2 per cent.

Paul Taylor

UK GILTS

Buoyant pound underpins strong price gains

THE GILT-EDGED market showed once again last week how prices can rise strongly on the back of sterling and foreign buying at a time when Britain's institutional investors are still showing a distinct preference for bank deposits.

The pound's gains — which came in spite of fresh worries about the resilience of oil prices —brought renewed speculation that there may be scope for a small cut in base rates if Tuesday's money supply figures do not provide any major shocks.

Long-dated gilt-edged issues advanced by around 2 points and shorter-dated stocks by around half that amount, allowing the Bank of England to maintain the momentum of its funding.

Brokers reported that a significant chunk of the £150m tranche of Treasury 10 per cent 1992 and the £250m of Exchequer 10½ per cent 2005 was taken up by overseas buyers, though one or two domestic institutions were also buyers.

The Bank, meanwhile, appeared to confirm the suspicion that it has forgotten how to issue traditional tap stocks by announcing a further £600m in tranches of existing stock for dealing from today.

The three equal tranches of 11 per cent Exchequer 1990, 10½ per cent 1999 and 11½ per cent Treasury 2003-2007 are aimed at catching as much of the current demand as possible but left some people wondering whether the Bank has abandoned the idea of giving ordinary investors the chance to tender for stock.

As for the foreign buying, every broker had a different story to tell as to where most of the demand was coming from. But it seems clear that Japanese, European and to a lesser extent Arab investors have been the key players.

Whereas British institutions are discouraged by the steeply downward sloping yield curve —which they see as a brake on any capital gains—overseas buyers have been much more concerned with the yield differentials between the London and other markets.

As broker Wood, Mackenzie points out in its latest Gilts Market Analysis, U.S. bond yields are now below gilt yields for the key 5 to 15-maturity range.

The perception that the authorities want the pound to remain strong to squeeze out inflation despite the recent upsurge in inflation also served to underpin sentiment.

Amid the general confidence, however, the more cautious were wondering just how far the market can go on advancing.

Even if the money supply figures allow a ½ point cut in base rates few are expecting any further significant reduction for some time. The gilt-edged market is already discounting a cut 1 to 1½ points.

The renewed signals from Mr Nigel Lawson that the Treasury has downgraded sterling M3 and the Bank's caution on funding persuaded some of the cynics that the growth of the broad measure in May could be above the ½ per cent already discounted.

Looking forward to May's inflation figures, due on June 14, there was also scepticism as to how attractive yields of just over 10½ per cent at the long end of the market would look if annual price rises are running as expected at 7½ per cent.

The conundrum for authorities is that they need to keep sterling high to prove their resolve on inflation and to maintain foreign demand for gilt-edged. But that means they cannot cut interest rates fast enough to make the market more attractive to the institutions here.

And if the Treasury has finally weaned itself off sterling M3, the consensus in the market is that gilt-edged investors still need more convincing.

Philip Stephens

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
AHFC O/S Fin 11¾ 94	100	104⅝	+1⅛	10.94
AIDC 11 89	75	102⅜	+0⅜	10.24
AIDC 11⅞ 90	100	101⅞	−0⅛	11.45
Amer Savings 12 89	125	102½	+0¾	11.13
Amer Savings 12⅝ 89	100	102⅞	+0¼	11.30
Asian Dev Bk 11¾ 93	100	104	+1⅛	10.97
Australia 11¾ 90	100	105⅞	+1⅛	9.94
Australia 11½ 95	300	104⅞	+0⅞	10.68
Australia 11⅝ 98	100	105⅞	+1	10.76
Austria 15½ 88	75	112½	+0⅝	10.05
Avco Fin 13⅞ 91	100	104½	−0⅛	12.16
Bk Nova Scotia 13¾ 87	100	106⅝	+1	9.91
Bank of Tokyo 12⅝ 92	100	103⅝	0	11.61
Bank of Tokyo 13¾ 91	100	110½	+0⅞	11.14
Bank of Tokyo 13⅞ 89	100	110½	+0¾	10.66
Bergen Bank 11½ 90	75	98¼	+0⅜	11.69
BP Capital 11⅛ 92	150	101⅝	+0⅞	10.74
Br Col Hydro 11¾ 93	200	106⅝	+1⅝	10.56
Br Col Hydro 12½ 14	200	107½	+1	11.93
Br Col Hydro 12½ 13	250	109	+2	11.75
Britoil Fin 11⅞ 90	125	102⅞	−0⅛	11.10
Caisse Nat En 11⅝ 95	125	104	+1½	11.03
Canada 10⅞ 88	500	103⅜	+0⅜	9.67
Casio Computer 5⅞ 89	80	127½	+13½	−1.18
CBS Inc 11⅜ 92	100	103½	+0⅜	10.65
Centrust S & L 10 00	1bn	6	+0⅛	12.06
Chesebrough 12 93	100	101	+0¼	11.76
Chrysler Fin 13¾ 94	150	106	+0⅛	12.12
Citicorp O/S 10⅝ 90	100	99⅝	+0⅛	10.71
Citicorp O/S 11⅜ 90	100	103⅛	+0⅜	10.91
Citicorp 11¾ 92	100	102⅝	+1	11.22
Citicorp 11¾ 97	200	100⅛	0	11.71
Citicorp O/S 14 94	100	103⅝	+0⅛	13.34
CNCA 11½ 92	125	102⅞	+1⅜	10.87
CNCA 13⅜ 91	100	109½	+1⅛	11.00
Coastled Inc 12⅝ 88	125	103⅜	+0½	10.69
Coca-Cola 11⅛ 88	100	104⅝	+0⅞	9.79
Comp Bancaire 13⅞ 90	75	110	+0⅝	11.16
Comsat 12⅝ 91	100	100⅜	0	12.06
Creditanstalt 13⅜ 91	100	107	0	11.44
Dai-Ichi Kangyo 12⅛ 90	100	105⅛	+0⅛	10.90
Denmark 10⅞ 90	100	99	+0⅛	11.13
Denmark 11½ 92	100	101¾	+1⅛	11.10
Denmark 12¾ 92	250	101⅜	−0⅛	12.40
Denmark 13 92	100	103⅝	0	12.22
Denmark 13½ 91	100	109⅛	+1	11.13
Denmark 13⅞ 88	100	108⅝	+0⅞	10.52
Denmark 14 91	100	109½	+0⅞	11.72
Digital Equip 11⅝ 89	150	104⅞	+0½	10.27
Dutch St Mines 11⅜ 91	150	100⅝	+0⅜	11.17
Eksportfinans 11⅛ 92	100	101⅞	+1⅛	10.83
Eksportfinans 11½ 90	100	103⅛	+0⅞	10.68
Elec de France 11⅛ 93	100	102½	+2⅛	10.63
Elec de France 12⅛ 87	150	105⅜	+0⅛	9.94
EEC 11 87	350	102½	+0⅝	9.61
EEC 11⅛ 90	100	102½	+1	10.39
EEC 12 93	100	106⅞	+1⅜	10.69
Elf-Aquitaine 10⅝ 89	100	98½	+0⅛	10.89
Ericsson L M 10⅝ 88	100	100½	+0½	10.10
Euro Inv Bk 11½ 90	200	104	+0⅛	10.48
Euro Inv Bk 11⅝ 91	73	100⅝	+1⅜	11.43
Euro Inv Bk 12½ 90	100	108⅛	+1⅛	10.29
EDC 9⅞ 88	200	100⅛	+0⅛	9.85
EDC 10 88	125	100⅜	+0½	9.81
EDC 10⅝ 88	100	102⅛	+0⅜	9.63
EDC 11⅛ 89	150	102⅝	+0⅜	10.20
EDC 12 89	100	105½	+0⅜	10.24
EDC 13⅝ 87	100	106½	+0⅛	9.92
Fed Dept Store 11 90	100	101¾	+0⅞	10.47
Finland 11½ 88	100	103⅛	+0⅜	9.93
Finland 12⅝ 94	75	106	+0⅞	11.16
Finnish Export 12⅝ 87	75	105⅞	+0½	9.83
Firstfed Mich 1 13⅝ 89	125	105⅛	+0⅛	11.59
Florida Fed 12⅝ 89	100	103⅜	+0⅛	11.18
FNMA 11½ 91	300	102⅛	+0⅞	10.94
Gen Elec Cred 8 96	600	32⅝	+0⅞	10.72
Gen Elec Cred 9¾ 91	100	97⅜	+0⅛	10.38
Gen Elec Cred 10⅜ 00	200	99⅝	+1	10.41
Gen Elec Cred 11 91	200	103⅜	+0⅛	10.17
Gen Elec Cred 11½ 87	200	103⅝	+0⅛	11.02
Gen Elec Cred 12 94	200	104½	0	11.18
Gen Foods Cap 11½ 90	75	104⅝	+0⅛	10.24
General Mills 12 91	100	103	0	11.29
GMAC 10 88	200	99⅝	+0¼	10.12
Gen Motors Acc 10½ 90	200	101⅞	+0⅜	9.95
Gen Motors Ac 11¾ 90	100	104½	+0⅜	10.21
Gen Motors Ac 12⅝ 86	200	100½	0	11.56
Gen Motors Ac 13 86	200	102⅞	−0⅜	10.02
GTE Finance 12 96	75	101¾	+0⅜	11.78
Gulf Oil 10⅝ 94	100	97⅝	+1⅛	10.82
Gulf Oil 12⅝ 87	100	102½	+0⅜	11.09
GZB 14 91	100	109⅜	+0⅞	11.74
Holl Air Fin 12⅝ 91	100	102⅜	−0½	11.86
Household Fin 11⅝ 92	100	101½	+0½	11.34
IBM 9⅞ 88	200	99⅝	+0⅜	9.91
IBM (WTC) 10⅝ 89	300	100⅞	+0⅜	10.04
IBM Credit 11 89	100	104⅝	+0⅛	9.76
IBM Credit 13⅞ 87	100	103	−0⅛	12.89
IBM 12⅝ 92	200	108⅝	+1	10.46
Ind Bk Japan 10⅜ 92	100	100½	+1⅛	10.61
Ind Bk Japan 10⅞ 95	100	100⅜	+2	10.72
Ind Bk Japan 11½ 89	125	103½	+0½	10.29
Ind Bk Japan 11⅞ 91	100	105⅛	+1⅜	10.67
Ind Bk Japan 13⅞ 91	125	112⅞	−0⅛	10.86
Int-Amer Dev 12¾ 91	150	107¼	+0⅛	11.08
[illegible]				
Oester Post 12⅝ 89	75	104⅜	+0⅜	10.67
Ohbayashi-Gumi 7⅝ 89	50	123	−1½	1.57
Ontario Hydro 11⅜ 94	200	105⅝	+1½	10.48
Ontario Hydro 11⅝ 90	200	106⅝	+0½	10.11
Ontario 12⅝ 94	250	110	+0½	11.00
Pacific Gas & El 12 00	75	103¼	+0⅛	11.51
Penney J C 11⅞ 90	100	104⅝	+1	10.63
Penney J C 12⅝ 91	100	107⅝	+1⅜	10.96
Philips Petrol 14 89	200	103⅞	+0½	12.66
Postipankki 11⅜ 90	75	100½	+0⅜	10.96
Post-Och Kred 13½ 87	50	105½	+0⅛	10.56
Privatbanken 12⅝ 95	100	99	0	12.81
Prudential Ins 12⅝ 87	150	105⅞	+0⅛	9.79
Pru Rlty Secs 99 00	365	24	+0⅜	11.04
Pru Rlty Secs 11⅞ 92	385	104⅝	+0⅜	10.86
Pru Rlty Secs 12⅝ 95	546	107	+1⅛	10.92
Quebec Prov 12⅝ 94	150	107	+1⅞	10.85
Queensland Gvt 11⅛ 89	100	103½	+0⅜	10.44

U.S. DOLLAR STRAIGHTS (continued)	Issued	Price	Chg. on week	Yield
RBC 12¾ 90	100	100⅞	−3⅛	12.44
Rural Bk Aust 12 91	50	101½	+0½	11.89
Sanwa Bk 11⅞ 92	150	103¾	+1⅛	11.03
Saskatchewan 10⅝ 92	100	100⅜	+1⅛	10.66
Saskatchewan 10⅝ 90	125	102¾	+1	9.98
Saskatchewan 11⅞ 89	100	105⅝	+0⅞	10.30
Saskatchewan 15 92	150	119¾	+0⅝	10.97
Saskatchewan 16 89	125	116⅝	+0⅛	10.39
Scot Int Fin 14⅝ 95	80	115	+5½	11.75
Sears O/S Fin 98	800	24⅝	+0⅜	11.41
Sears Roebuck 10½ 91	150	99⅝	+0⅜	10.57
Sears Roebuck 11⅝ 91	150	106	+0⅞	10.38
Sec Pacific 12 92	100	104⅝	+1	11.05
Shearson/Amex 12⅝ 94	100	103⅝	0	11.48
Shell (Canada) 14⅝ 92	125	112⅝	+1⅛	11.70
Signal Comps 11⅝ 92	125	102⅝	+0⅜	11.20
Standard Oil 10½ 89	150	100⅜	+1½	10.20
Statoil 12 88	100	104⅞	0	9.94
Sumitomo Corp 10⅝ 92	100	99⅝	+0⅞	10.79
Sumitomo Fin 11⅜ 92	150	103⅜	+0⅜	11.06
Sumitomo Fin 12⅜ 91	150	107⅞	+0⅝	10.98
Sumitomo Trust 12½ 92	100	104½	0	11.47
Sweden 11½ 89	200	103⅜	+0⅜	10.42
Sweden 12⅝ 89	200	106⅝	+0⅛	10.29
Swedish Export 10⅝ 94	100	101	+0⅜	10.55
Swedish Export 11½ 89	100	102⅞	+0½	10.47
Swedish Export 2⅝ 89	100	104⅞	0	11.23
Taiyo Kobe 11⅞ 90	100	103⅜	+0½	11.00
Taiyo Kobe 12 90	100	104⅝	−0⅛	10.83
Tenneco Intl 11½ 89	150	103⅝	+0⅜	10.21
Texaco Capital 10½ 90	200	99⅜	+1⅛	10.53
Texaco Capital 10½ 93	200	100⅛	+0⅜	10.45
Texaco Capital 13½ 89	200	108⅛	+0½	10.86
Texas Instru 11⅞ 91	150	103⅞	+0⅜	10.91
Tokai Asia 12⅛ 91	100	105	+0⅜	10.98
Tokyo Electric 6½ 89	70	91	−0½	9.41
Tokyo Electric 13⅝ 89	100	108⅛	+0⅜	10.82
Toray Inds 11⅞ 92	50	100	+2	11.10
Toronto-Dom 12⅛ 89	50	105	+0½	10.96
UBS 12⅝ 91	100	103⅜	+0½	11.47
Utd Tech 11⅜ 92	150	102⅞	+1⅛	10.60
Veba 8 93	70	117½	+6⅛	5.38
West LB 11⅞ 90	100	103⅜	+1½	10.93
Westpac 12⅛ 92	100	104	0	11.69
Weyerhaeuser 11⅛ 90	60	102⅜	+0⅞	10.89
World Bank 11 92	300	101½	+0⅜	10.68
World Bank 11⅛ 90	200	102⅞	+0⅞	10.49
World Bank 11⅛ 89	200	103⅛	+0⅜	10.18
World Bank 12 93	200	106⅜	+1⅛	10.71
World Bank 12⅛ 94	150	107⅝	+1	10.95
World Bank 12⅞ 94	200	111⅛	+1⅞	10.87
Yasuda Trust 12⅝ 89	100	104⅞	+0⅜	10.74

FLOATING RATE NOTES	Issued	Price	Chg. on week	C.cpn
African Dev Bk ⅛ 96	100	100	0	9⅞
Arab Bank Cpn ⅛ 96	100	100	0	10⅛
Banca Lavoro ⅛ 91	100	100⅛	+0⅛	9⅛
Banco di Roma ⅛ 91	150	99⅞	0	9⅞
Bnco di Roma ⅛ 92 CU	75	99⅝	0	10⅝
[illegible]				
Toyo Trust Asia ⅛ 99	100	100⅛	0	9⅞
TVO Power ⅛ 04	100	98⅝	0	8⅞
Union Bank-Norw ⅛ 99	50	98½	−0⅛	9⅞
Wells Fargo ⅛ 98	50	99½	−0⅛	8⅞
World Bank ⅛ 89	250	98⅜	−0⅛	8⅞
Yorkshire Int ⅛ 94 £	75	100	0	13⅝

CONVERTIBLE BONDS	Issued	Price	Chg. on week	Prem.
Ajinomoto 3 99	120	96⅞	+2⅝	
Best Denki 5⅞ 97	15	150½	+14⅛	1.55
Canon 7 97	50	198⅛	−2⅝	−0.38
Daiwa Secs 5½ 98	60	175⅛	+9⅝	−1.33
Dev Bank Sing 5½ 98	70	76	0	6.79
Elders 11⅛ 94	160	104⅝	+0⅛	49.57
Elektrowatt 5 98	52	89⅝	+1½	12.39
Fujitsu 3 99	180	86⅝	−0⅞	5.66

(continued)	Issued	Price	Chg. on week	Prem.
Inteo Inc 3 99	50	70⅝	0	−2.43
Kumagi Gumi 3½ 00	80	103⅞	+3	−2.58
LASMO 9⅝ 99	45	96⅝	−1	−16.23
Moet-Hennessy 7 99	50	105⅝	+2⅝	−0.14
Murata Mfg 3½ 00	100	104	−3	6.60
Nippon Oil 3½ 99	60	85⅝	−1	6.72
Ono Pharm 3⅛ 99	60	100⅛	−2⅛	19.41
Soc Gen Surv 4½ 94	51	98	+1⅛	137.40
Sumitomo Corp 2⅞ 99	70	105⅝	+4⅛	−1.62
Texaco Capital 11⅞ 94	1bn	105⅛	0	45.34
Texaco Capital 11¾ 94	500	106⅝	−0⅛	46.36
Tsugami Corp 3⅛ 00	20	81	+3	−65.29
Yamaichi Sec 3⅛ 96	20	128	+2½	−6.06

YEN STRAIGHTS	Issued	Price	Chg. on week	Yield
Asian Dev Bk 7⅛ 94	15	101⅛	+0⅛	7.17
Avon Products 6⅝ 91	25	97⅝	+0⅛	7.27
Denmark 6⅝ 92	20	97⅜	+0⅞	7.18
Dow Chemical 7 94	50	99⅝	0	7.03
Eurofima 7⅛ 94	10	101⅛	+0⅜	7.11
Eurofima 6⅝ 92	50	97⅞	+0⅞	7.15
FNMA 6⅞ 92	50	98⅝	+0⅛	7.22
GMAC 6½ 90	25	98⅝	+0⅛	6.84
Intel 6⅝ 92	13	96⅝	+0⅛	7.27
IADB 7½ 94	15	101½	+0⅛	7.26
IADB 7⅝ 93	15	102⅛	+0⅞	7.45
ITT 6⅝ 92	20	97	+0⅛	7.32
McDonald Corp 6½ 92	25	98⅛	+0½	6.85
New Zealand 7⅛ 90	15	100½	+0⅞	7.00
New Zealand 7⅝ 89	15	102⅛	−0⅛	6.99
Pacific Gas & Elec 7 94	20	99⅝	+0⅞	7.18
Penney J. C. 6⅝ 92	25	97½	+0⅛	7.25
Proctor 6⅝ 92	25	98½	+0⅛	6.90
Sallie Mae 6⅝ 92	25	97⅝	+2⅛	7.15
TRW 7 94	15	98½	0	7.21
Utd Technology 6⅝ 92	25	97⅝	+0⅛	7.05
World Bank 7 94	20	99⅝	+1	7.13
World Bank 7⅛ 93	20	102	−0⅞	7.29
World Bank 8 93	20	104⅛	0	7.23

LUXFR STRAIGHTS	Issued	Price	Chg. on week	Yield
ASEA 9⅝ 89	600	102⅛	+1⅛	9.06
Eurofima 10 94	600	102⅞	+1	9.51
E Coal & Steel 10½ 94	1bn	104⅞	+0⅛	9.48
Euro Invest Bk 10½ 94	1bn	106⅛	+0⅞	9.35
World Bank 10⅛ 89	1bn	105⅝	0	8.50

GUILDER STRAIGHTS	Issued	Price	Chg. on week	Yield
ABN 8 89	200	100⅛	+0⅛	8.93
ABN 7⅝ 89	150	101⅞	+0⅛	7.22
Amro Bk 7⅝ 89	150	101	+3⅛	6.97
Amro Bk 8 89	200	103⅛	+0⅛	6.87
Bk Mees & Hope 8⅛ 89	100	103	+0⅛	7.29
Beatrice Foods 8⅛ 89	100	103⅜	0	7.16
C. C. Rabo 8 89	150	103⅛	+0⅞	6.97
Denmark 8⅛ 91	100	103½	+0⅛	7.74
Int Stand Elec 8½ 89	100	103⅜	−0⅛	7.33
New Zealand 8⅛ 89	100	103⅝	+0⅛	7.16

CANADIAN DOLLAR STRAIGHTS; ECU STRAIGHTS; AUSTRALIAN DOLLAR STRAIGHTS; STERLING STRAIGHTS; EQUITY WARRANTS: [illegible]

BOND WARRANTS	Expiry date	Price	Chg. on week	Ex. yield
Aegon Ins 11⅛ 91	14/2/88	12⅝	−9⅛	8.66
Coca-Cola 11⅛ 91	26/11/88	32	−4	4.83
Commerzbk 11⅛ 89	17/7/88	46	−31½	0.63
Du Pont 13⅛ 89	25/8/86	40	−22	1.99
Eksportfinas 13⅛ 89	15/9/87	43	−35½	1.08
Gen Elec 12⅝ 91	7/8/87	30	−25⅛	5.71
IBM Credit 13 87	19/8/85	37	−21½	−4.29
Inv in Inds 10½ 91	1/12/88	67½	0	0.63
McDnlds F 11⅛ 94	5/1/89	15	−10⅛	8.12
Oester Lnbk 13½ 89	9/8/87	33	−32⅝	3.36
Texaco Cap 12⅞ 92	1/9/87	32	−19	6.30
Xerox 13⅛ 87	15/8/86	26	−27½	−0.10

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: U.S. dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: U.S. dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

* Perpetual.

Closing prices on May 31.

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

"You seem to have made a hit with out new strain of forget-me-not"

Customers need cultivating

Jane Rippeteau on a horticultural renaissance

IT'S AN old business basic. Companies of all sizes are lamenting their tendency to forget it. It is the importance of courting the customer, and for a tiny entrepreneurial company in Somerset, it has made a thousand flowers bloom.

It all began a quarter of a century ago when a director of the old family-run brewer Arthur Guinness and Sons decided he wanted to propagate orchids. This indulgence, which called for pioneering work in an accelerated form of propagation called plant tissue culture, did help drop the price of the flower. But the researchers working out of a make-shift laboratory in two bedrooms busied themselves mostly with detailed research on a staggering assortment of plants.

The operation was unfocused and Ernest Saunders, the outsider brought in to get Guinness back to basics in 1982, would have none of it. The plant patch was pruned.

Yet today, snapped up by an American venture capitalist, the company, Twyford Plant Laboratories in Baltonsborough, is a rising star in the promising world of test-tube horticulture, in which tissues from one plant can be used to produce thousands of disease-free clones in a fraction of the time that conventional propagation requires.

Newly-installed managers and top scientists, motivated by a 15 per cent share of the company's equity, homed in on Twyford's expertise in flowering plants. They put up a computer-run, state-of-the-art glasshouse, holding 4,000 plants for every square metre of its white metal trays, over the old Somerset orchid ground. They called upon NASA to supply sterile peat containers called plant plugs. And now they claim the largest share of flower plantlet sales in the Dutch-dominated European horticulture market. Sales have climbed six-fold to some 6m units called "propagules" last year.

"We're pushing it out as fast as we can," says managing director Jeff Hooper, hired away from Royal Dutch Shell's Nickerson Seeds subsidiary by the new owner John Hesse, chairman of Plant Resources Venture Fund. Adds Peter Bal, director of Bal and Borse, a top Dutch flower agent: "The market is enormous, and Twyford is making a business out of it."

The transformation may seem as magical as Twyford's proprietary propagation techniques. Instead, it was systematic. Hooper had a vast market—he estimates growers already spend $3bn annually for plantlets, most propagated conventionally—and he had a commercial technology. But he also had a yawning gap between the two. He began to close it.

Customers were more carefully identified, and potential new markets were identified. Scientists were sent out to meet customers directly, who in turn were invited around Twyford's operation. "The big danger of 30-odd scientists and a big pot of money is that they will go off on flights of fancy," says Hooper. The scientist "has to see the results of his science pushing into the marketplace."

Hooper also got R and D to focus on specific customer needs. One Dutch grower wanted a lily of a different colour. A team was dispatched to the site; it will try radiation techniques to get some of the red of a red lily into a pink lily, then rush home to launch rapid propagation. Another customer lamented a Central American country's ban on dracaena exports. Twyford is working to replace the source. And all the customers wanted ever-faster delivery, sometimes down to the hour of the day tailored to huge flower auctions in the Netherlands.

Tissue culture, a well-known process, involves clipping growth tissue from the shoot tip of a desirable plant, sterilising it, and placing it in a gel of minerals and other nutrients to grow. More tips are clipped from the first clone, and additional ones are started. The increase in the multiplication rate is dramatic. As Peter Walker, assistant research director explains, a narcissus replicates naturally once in a year. By conventional propagation, called chipping, that can be boosted to 20 per year. But tissue culture can result in 20,000 clone flowers in a year. Tulips, currently a hot research target, could be provided in volume in about five years, instead of 20 to 30, making it much easier to cater to changing colour fashions, experts say. The replicate flowers will be disease-free, and sport all of the favoured characteristics of the original flower.

"The speed is tremendous," says Quirinus Buschman, co-director of Holland's Cor van Duyn Import and Export, one of the world's top breeders of popular alstroemeria flowers. "When you find a new variety, done! You send it up to Twyford. And you can have thousands of plants in a year or so. That makes you very competitive."

The process, from where to clip a particular plant to what to put in its gel to stimulate growth, is called a system and it varies with each plant. Competitors can differentiate themselves by the systems they develop. "It's a bit of a black art," says David Leathers, a director of Biotechnology Investments, the N. M. Rothschild and Sons venture capital unit and a Twyford investor.

Twyford believes it has a big edge tucked away in the dusty dozen file cabinets containing some 20 years of specialised plant research. So far, it has developed systems for about 160 plants, with many more, from tulips to asparagus and such plantation crops as date palms, in the works.

One of the most important breakthroughs came in response to customer difficulties in removing plantlets from the gel. The plants develop one root system in the gel, but a different one in the soil. When plantlets were delivered in their proprietary plastic-enclosed gel containers, growers had to handle the critical transition from gel to oil.

"Losses were running at between 25 and 45 per cent of total plants delivered," says Twyford marketing director Andrew C. Brown. "Now Twyford takes the plants out of the gel, transplants them into the sterile NASA peat plug, and ships them ready for planting into a glasshouse. "Losses now are below 10 per cent, and they are carried by Twyford, not the customer," says Brown. He believes the improvement is a key factor in expanding the customer base. It also made it possible for him to cull the product line, focusing exclusively on high-volume plants of which the company can sell at least 50,000 a year for at least 25p apiece. Orchids did not survive the cull.

Staying close to those customers will be a continuing challenge if Twyford realises its ambitions to grow to $30m in annual revenue, with worldwide presence, in five years. Working now two shifts seven days a week, Twyford expects to ship 8.3m units this year and reach 20m by 1990—in Europe alone.

It is keeping mum about margins, but hopes to be ready to go public in as soon as two or three years. Last month the company opened a plant in Santa Paula, California, and expects U.S. sales of 4m units by the end of 1986. It is banking on its speciality in cut flowers to help fend off U.S. competitors, many of them entrepreneurial start-ups pursuing biotechnology applications in a range of plant agriculture.

In all the excitement, Hooper seems less worried about competitors than his own management. "The real danger is in scaling up too quickly. What we are doing is bringing the benefits of plant breeding to the customers much more quickly. We have to earn our money out of the marketplace."

Financial strategy

Upending some sacred cows

BY DAVID DAVIES

THE finance director's lot is a difficult one. On virtually all of the areas of important policy—dividends, gearing, acquisition strategy—he (or she) has traditionally to chose between two exactly contrary types of advice. On the one hand he has advice from the market professionals, full of wiles and wisdom, full of auctioneering insight and much-scarred hindsight. On the other hand, he has the siren-song of academic analysis, dry, theoretical, difficult to argue with but also difficult to believe.

Today that is no longer true. A tidal change is sweeping through the whole sphere of financial strategy. Based on empirical study rather than arcane mathematical analysis—on how things do happen, rather than how they should happen—a number of sacred cows are being upended.

Perhaps the most important of these sacred cows is dividend policy. Economic theory says that dividends are at best irrelevant, at worst, tax inefficient. Paying dividends leads the shareholder to incur an income tax liability at a typically high marginal rate. The market should reflect in the share price the retained funds of the business. This should mean a (low) capital gains tax liability rather than a (high) marginal income tax. Hence, if anything, dividend increases should lead to a reduction in the share price, and retentions should give an increase.

American research data* says the exact opposite. The experience in the U.S. markets indicates that each 1 per cent increase in yield leads to about 3 per cent abnormal increase in share price. Furthermore, because of market expectations of increasing yields, a frozen dividend on average causes a 2 per cent discounting of the share. So dividends, and in particular dividend increases, are good for the shareholders, even those paying the highest marginal rate of tax.

Why should this be so? The argument is quite straightforward. Dividends are news. Each time management increases the dividend it commits itself to meeting a cash flow demand, effectively in perpetuity. The management has made a forecast that is self-punishing if it is wrong. I have no data on the tenure of chief executives at the time of cuts in dividend, but I suspect that it is often short. It is dangerous to lie with dividends. For a shareholder, therefore, they are the best form of profit forecast.

The same is true of share repurchases. How many chairmen of companies have complained that their equity is "undervalued" on the stock exchange? The best proof of undervalued equity (nowadays) is for the company to buy its own shares. Again, American experience is that companies repurchasing their own shares enjoy a permanent capital gain. This is rational: who would know the real value of a company's shares better than its own management?

Again, the financial strategy of share purchase is a vehicle for news of the company's real prospects. The thinking behind the financial strategy of GEC is, as ever, impeccable.

Different tax situation

For both of these strategies the corporate taxation situation is different in the UK from that in the U.S. This difference is not large enough, however, to over-ride the effects outlined above. Furthermore, the data is little more than academic support for what many of the wiser finance directors considered just common sense.

One particularly smart and straightforward finance director of my acquaintance recognised this without realising it, not long ago. When asked why his company had lost a takeover battle and been swallowed up by the predator, he said simply: "Our dividend policy was too mean." The dividends had not reflected the real prospects; the shares had, therefore, been under-valued, and the predator had had an unusually easy task.

There is some evidence that the same logic applies to financial gearing. Ten years ago the business schools were teaching that there was such a thing as an optimum gearing ratio, for any class of share. The optimum was judged on the basis of a trade-off between the tax advantage and the risk of a given level of debt, and was reflected in the share price. Today the argument is more cunning. Any increase in debt—like an increase in dividend—implies a commitment to a certain cash flow stream. Here the argument is a little more subtle, since the increase must be voluntary, and probably expansionary. A run to the bank to shore up an ailing company will have the opposite information effect from a deliberate decision aggressively to debt-finance a major expansion. The latter action can lead to a share price increase, even for an already aggressively geared company. This is entirely contrary to classical risk theory, of course.

The other area of financial policy—and indeed corporate strategy—where mathematics has previously prevailed over common sense is in acquisition strategy.

Much "diversification strategy" seems to be based upon a spurious mixture of abstruse and inappropriate mathematical theory, and a more comprehensible but equally reprehensible yearning for "greener grass." Wiser heads might advise against the risks of taking on new markets and new technologies with old skills, but this does not stop Britain having regular bouts of merger-mania.

Again, a little empirical analysis is enlightening. Studies of takeovers in the U.S., UK and Australia† threw up some interesting conclusions:

1—Overall, the financial performance of the joint companies (acquisitor company and acquired company together) was no better than the average of the companies apart.

2—The sole beneficiaries of the exercise were the shareholders of the acquired company who, on average, made a 35 per cent gain over their previous performance. Since there was no overall benefit generated, the source of this advantage was the shareholder group of the acquisitor company who, on average, lost between 6/7 per cent of their expected share value. (This loss is smaller than the gain of the acquired company simply because of the ratio of sizes between the companies involved in a typical takeover. Obviously, the bigger the acquired company is as a proportion of the acquisitor, the bigger the loss suffered by the acquisitor shareholders.)

3—The causes of these losses to the shareholder are primarily the size of the premium paid and to a lesser extent, earnings per share.

4—These facts are particularly true of acquisitions in the UK and Australia, as against the U.S. The probable reason for this is the relative effectiveness of the Monopolies Commission in preventing takeovers within the same industry which, on average, are by far and away the most financially rewarding exercises.

5—Based upon a survey of a total of 486 takeover attempts, the data is very clear-cut; acquisitor shareholders suffered losses in over 80 per cent of the "successful" takeovers.

The few successes that do arise tend to be very much

'Financial' takeovers

"financial" takeovers. Companies with very poorly utilised assets, soft management, very high discretionary costs, and a low P/E, acquired by a company with a high P/E, tend to give good returns. Hanson Trust's activities would be a good example of this. Outside this group, there are very few winners.

In all of this — dividends, share repurchase, gearing takeover strategies—common sense is gaining ground over economic theory. Wisdom is winning. Market-insight is becoming respectable.

* *"The impact of initiating dividend payments on shareholders' wealth," by Paul Asquith and David Mullins, Journal of Business, Vol 56, No 1 (Jan 1983), pp 76-96.*

† *"Takeovers, shareholder returns, and the theory of the firm," by Michael Firth, The Quarterly Journal of Economics, March 1980, pp 235-258.*

The author is a senior executive with Tate & Lyle, where he specialises in turnround and problem companies.

Company Notices

KIRSH TRADING GROUP LIMITED
DECLARATION OF PREFERENCE DIVIDENDS

NOTICE IS HEREBY GIVEN that the Board of Directors has declared the following preference dividends payable on 30th June 1985 to those preference shareholders registered in the books of the company at the close of business on 14th June 1985:

CUMULATIVE PARTICIPATING PREFERENCE SHARES
Dividend No. 18 of 4.125 cents per share for the six months ending 30th June 1985.

COMPULSORILY CONVERTIBLE CUMULATIVE VARIABLE RATE PREFERENCE SHARES
Dividend No. 5 of 27.2958 cents per share for the six months ending 30th June 1985. In accordance with the terms attaching to these shares, the dividend due fluctuates with Nedbank Ltd's prime bank overdraft rate ("prime"). In event of there being a change in prime between 29th May 1985 and 30th June 1985, the dividend will be adjusted and shareholders will be advised by a notice appearing in this newspaper on 4th July 1985.

7% COMPULSORILY CONVERTIBLE CUMULATIVE PREFERENCE SHARES
Dividend No. 3 of 14 cents per share for the six months ending 30th June, 1985

These dividends are declared in South African currency and dividends payable from the London Office will be paid in United Kingdom currency calculated at the rate of exchange ruling between Rand and Sterling on 14th June 1985. Dividend cheques despatched from the London Office to persons resident in Great Britain or Northern Ireland will be subject to a deduction of United Kingdom Income Tax at rates to be arrived at after allowing for relief (if any) in respect of South African Taxes.
The company will, where applicable, deduct the Non-Resident Shareholders' Tax of 15% from dividends payable.

NOTICE OF INTEREST PAYMENT ON
8.25% UNSECURED LOAN STOCK 1978/87

NOTICE IS HEREBY GIVEN that interest payment No. 3 of 1.2375 cents per unit for the six months ending 30th June 1985 has been declared by the Board of Directors, payable on 30th June 1985 to the loan stockholders registered in the books of the company at close of business on 14th June 1985.
Non-Resident Interest Tax at the rate of 40% will be deducted where applicable.

By Order of the Board
R. C. DESMARAIS, Secretary

Johannesburg,
3 June 1985.

Registered Office:
18th Floor, Glencairn
73 Market Street
2001 Johannesburg

South African Transfer Secretaries:
Central Registrars Limited,
154 Market Street,
2001 Johannesburg
(P.O. Box 4844, Johannesburg, 2000)

London Transfer Secretaries:
Ravensbourne Registration Services Limited,
Bourne House, 34 Beckenham Road,
Beckenham, Kent, BR3 4TU, United Kingdom.

A Kirsh Group Company

REPUBLIC OF INDONESIA
US$200,000,000
Floating Rate Notes due 1992

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the period from 31st May 1985 to 29th November 1985 has been fixed at $8\frac{7}{16}$ per cent per annum. On the 29th November 1985 inteerst of US$426.24 per US$10,000 nominal amount of the Notes and interest of US$10,664.06 per US$250,000 nominal amount of the Notes will be due against interest Coupon No. 7.

SWISS BANK CORPORATION INTERNATIONAL LIMITED
Reference Agent

COMPAGNIE FRANCAISE DES PETROLES
S.A. CAPITAL STOCK F 1,535,869,450
Head Office:
5, Rue Michel-Ange, 75016 Paris
R.C.S. Paris B 542 051 180

NOTICE OF SHAREHOLDERS' MEETING

NOTICE IS HEREBY GIVEN to the shareholders of Compagnie Francaise des Petroles that they are to convene on Friday 21 June, 1985, at the Hotel Hilton International, 18 Avenue de Suffren, 75740 Paris Cedex 15.

A. FOR AN ORDINARY GENERAL MEETING TO BE HELD AT 10.30 A.M.
The agenda will be as follows:
1. Report of the Board of Directors on operations and accounts for the year 1984. Auditor's Report.
2. Approval of the said Reports, Accounts and Balance Sheet.
3. Income allocation and determination of dividend.
4. Approval of appointments of Directors.
5. Appointment of an alternate auditor.
6. Approval of transactions covered by article 101 of the Law of 24 July 1966.
7. Setting of a redemption price for class "A" shares until the next Annual General Meeting pursuant to article 11 of the Bye-Laws.

B. FOR AN EXTRAORDINARY GENERAL MEETING TO BE HELD FOLLOWING THE ORDINARY GENERAL MEETING
The agenda will be as follows:
1. Modification of the Company's name. Corresponding modification of article 2 of the Bye-Laws.
2. Harmonisation of the Bye-Laws with the law of 31.12.1981. Corresponding modification of articles 35, 37, 43 and 49 of the Bye-Laws.
3. Renewal of the authorisation given to the Board of Directors to increase the share capital at its discretion up to but not exceeding the figure of 2,500,000,000.

All shareholders who own one or more "A" or "B" shares are entitled to attend these meetings or be represented therefore by a proxy shareholder or by their spouse.
However, in order to be able to attend these meetings or be represented therefore, shareholders who own registered shares should be listed in the Company registers five full calendar days before the meetings are to convene and shareholders who own bearer shares should within the same time limit deposit the authorised agent's certificate attesting the restriction on disposal of these shares until the date of the meeting with one of the following establishments:
— Banque Paribas: 3, Rue D'Antin, 75002 Paris
— Credit du Nord: 6 et 8, Boulevard Haussmann, 75009 Paris
THE BOARD OF DIRECTORS

TRAFALGAR FUND
société anonyme
Commercial Register: Section B no 8202

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

The annual general meeting of shareholders of TRAFALGAR FUND, S.A., will be held at its registered office, 14, rue Aldringen, Luxembourg, on June 11th, 1985, at 3 pm for the purpose of considering and voting upon the following matters:
1. To hear and accept the reports of: a. the directors b. the statutory auditor.
2. To approve the balance sheet and the profit and loss account as at February 28th, 1985.
3. Allocation of net profit.
4. To discharge the directors and the auditor with respect to their performance of duties during the year ended February 28th, 1985.
5. To elect the directors to serve until the next annual general meeting of shareholders.
6. To elect the auditor to serve until the next annual general meeting of shareholders.
7. Any other business.

In order to take part at the statutory meeting of June 11th, 1985, the owners of bearer shares will have to deposit their shares five business days before the meeting at the registered office of the Fund, 14, rue Aldringen, Luxembourg, or with one of the following Banks:
—Banque Générale du Luxembourg, S.A.
14, rue Aldringen, Luxembourg.
—J. Henry Schroder Wagg & Co Limited
120 Cheapside, London EC2V 6DS.
The Board of Directors.

BANK HANDLOWY W. WARSZAWIE S. A.
US$ 30 million Bonds Loan 1978/88 Floating Rate

The rate of interest applicable for the six months period beginning on May 31st 1985 and set by the Reference Agent is $9\frac{1}{16}$% annually.

TRAFALGAR FUND S.A.
Société Anonyme
Registered Office: 14, rue Aldringen, Luxembourg
Commercial Register: Section B 8202

NOTICE OF EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS

The Extraordinary General Meeting of Shareholders of TRAFALGAR FUND will be held at its registered office at Luxembourg, 14, rue Aldringen, on June 11th, 1985 at 3.30 pm for the purpose of considering and voting upon the following matter:

1. Amendment of the articles of incorporation in accordance with the law of August 25th, 1983, including, without limitation, the following:
   a) Articles 3 and 30:
   To delete in these articles provisions referring to the law of 31st July, 1929 and to replace them by reference to the law of 25th August, 1983 regarding investment funds.
   b) Article 5:
   To add to this article the following paragraph:
   "The Corporation has an authorised capital of US$10,000,000 consisting of 5,000,000 shares of a par value of US$2 (two dollars US) per share.
   c) Article 7:
   To amend the second paragraph of this article to redefine the conditions for the issue of new shares and to waive preferential subscription rights. The text of the amended article 7 is available for inspection at the registered office.
   d) Article 21:
   To add the following sentence to the second paragraph:
   "Redemption proceeds shall be paid not later than seven business days after the applicable redemption date or after receipt of the repurchased share certificates which ever occurs first."
   To delete in the second paragraph:
   "and if the corporation agrees to redeem or causes a subsidiary"
   e) Article 23:
   To amend article 23 first paragraph so as to reflect that the maximum commission on repurchase of shares is one per cent of the net asset value per share and
   to amend paragraph "A" sub paragraph (2) to be read as follows:
   "the value of any bond, time note, share, stock debenture stock, subscription right, warrant, option or other investment or security which shall be listed or dealt in upon any New York stock exchange shall be determined by taking the closing price or, lacking the quotation of a closing price, the middle of the bid and offer prices on any such stock exchange on that business day in New York, all as reported by any means in common use.
   f) Article 24:
   To add the following paragraph:
   "The issue price for subscriptions shall be payable not later than five business days after the date on which the applicable net asset value was determined."
   g) To delete all reference to the subsidiary company in the articles and specially in the articles 21, 23.

Resolutions on the agenda of the Extraordinary General Meeting will require that at least 50 per cent of the total issued and outstanding capital are represented at the meeting. Should such quorum not be reached, a second meeting would then be convened not earlier than a month later. At such postponed meeting no quorum will be required. In the Extraordinary Meeting, a majority of two thirds will be required for resolutions on the items of the agenda.

In order to take part at the Extraordinary Meeting of June 11th, 1985 the owners of bearer shares will have to deposit their shares five clear days before the meeting at the registered office of the Fund, 14, rue Aldringen, Luxembourg, or with the following banks:
—BANQUE GENERALE DU LUXEMBOURG SA
14, rue Aldringen, Luxembourg
—J. HENRY SCHRODER WAGG & CO LTD
120 Cheapside, London EC2V 6DS

The Board of Directors

Exhibitions

THE FINE ART & ANTIQUES FAIR, OLYMPIA, London. Over 280 leading British Dealers. May 30th Preview Day, 2 pm-9 pm (Adm. £10). May 31st-June 8th 11 am-8 pm (Adm. £2.50). Closed Sunday. 5 pm final day.

Clubs

EVE has outlived the others because of a policy of fair play and value for money. Supper from 10-3.30 am. Disco and top musicians, glamorous hostesses, exciting floorshows. 189 Regent St. 01-734 0557

Contracts and Tenders

THE MARITIME SERVICES BOARD OF N.S.W.

CONTRACT 85/86
SALE OF THE BOARD'S SINGLE BUOY MOORING AT BOTANY BAY, SYDNEY, N.S.W., AUSTRALIA

Tenders are invited for the purchase and removal of the board's single buoy mooring on an "as is where is" basis from Botany Bay, Sydney, N.S.W.

The S.B.M. was installed by I.C.H. Holland (Aust.) Pty. Ltd., in October 1971. The S.B.M. is capable of handling ships of 120,000 d.w.t. ships cargoes of crude products are received and despatched through two 305mm and two 406mm diameter pipelines arranged on the turntable. Its position is fixed by six pendants and 15.3 tonne anchors.

Tender documents may be inspected and obtained from the office of the Agent General of New South Wales, New South Wales Government Offices, New South Wales House, 66 Strand, London WC2N 5LZ, U.K. Office hours are 9.00 a.m. to 4.30 p.m. Monday to Friday and inquiries should be directed to Mrs. P. Kemp. Tenders should be endorsed 'Contract 85/6' and addressed to The Secretary, The Maritime Services Board of N.S.W., Tender Box, First Floor, Head Office, Circular Quay West, Sydney, 2000, New South Wales, Australia.

Tenders close at 2.00 p.m. on Monday, 17th June 1985. General enquiries may be directed to the Board's Designing Engineer, Mr. P. Maunder on Telephone (0061) (02) 2482858, between the hours of 8.30 a.m. to 4.30 p.m. Monday to Friday Australian Eastern Standard Time, or by Telex, Telex number MSBSY AA24944.

GOVERNMENT OF HONG KONG
ROUTE 5 SHA TIN TO TSUEN WAN — SHING MUN SECTION
ELECTRICAL AND MECHANICAL CONTRACTS
PREQUALIFICATION NOTICE

Applications are invited, for one or more of the contracts listed below, from manufacturers and specialist contractors for the Route 5 Tunnel Project in Hong Kong. Manufacturers and specialist contractors must have recent proven experience in the provision of relevant equipment for major road tunnels. Principals only should apply; documents will not be issued to Agents.

The following are the contracts for the equipment required:—

Contract HY/85/08 Tunnel Services (including supplies and cabling)
Contract HY/85/09 Tunnel Supervisory System (including computers and software)
Contract HY/85/10 Toll Collection (including computers and software)
Contract HY/85/11 Tunnel Luminaires — manufacture
Contract HY/85/12 Tunnel Fans — manufacture

Closing date for submission is 19th July 1985. Contractors should apply by 21st June 1985 for prequalification papers to:

Mott, Hay & Anderson Far East
2401 Sun Hung Kai Centre
30 Harbour Road, Hong Kong
Telephone: 5-757108
Telex: 63892 MHAFE/HX

UK COMPANY NEWS

Martin Dickson looks at a leading British software company which plans a full listing next month

CAP sets its sights on worldwide expansion

YOU HAVE to be a very self-confident software house to launch yourself on the London stock market at a time of City nervousness and disenchantment with the whole computer sector.

But that is exactly what CAP, one of Britain's top software companies, is planning to do next month, with a full listing that is likely to give it a market capitalisation of £30m to £40m.

Cash-flow problems at Sinclair Research and a plunge in profits at Micro Focus, the USM-quoted software house, are only the latest in a run of bad news from the computer industry that has soured general market sentiment.

However, the nature of CAP's business — far removed from the troubled micro end of the market and cheap software products — should largely insulate it from this loss of confidence. "To compare CAP with the micro companies is just stupid" comments one City analyst. Nevertheless, the company acknowledges that a further sharp deterioration in the mood of the market could yet force a postponement of its plans.

CAP's main business is the provision of "bespoke" software systems to many of Britain's leading companies and to the Ministry of Defence. Examples of its work include the software for the Access credit card system, for a new Lloyds Bank foreign exchange dealing room system, for the A310 Airbus flight management system and for Royal Navy submarine surveillance systems.

With 1,400 employees, 1983-84 profits of £1.32m on turnover of £26m, and a very blue chip client list, CAP is in the same league as the two other independent British software companies that already have full Stock Market listings — Systems Designers International and Logica.

Its profile is somewhat different from these rivals. It is less orientated to defence work than Systems Designers — still a stock market high flier with a p/e ratio of 41. And it does not have Logica's involvement in hardware and office automation. Problems with these, and in the U.S., have helped cut Logica's p/e to 27.

FIVE-YEAR RECORD

Year	Turnover (£000)	Pre-tax profit (£000)
1984	26,289	1,322
1983	20,027	965
1982	14,043	531
1981	13,171	1,423 loss
1980	13,042	689

CAP, however, has had problems of its own in the past. The *flotation will set the seal on its* recovery from a traumatic upheaval five years ago when the company plunged into losses.

Founded in 1962, it was one of Britain's first computer service companies. "The GPO had to create a separate heading in Yellow Pages for us," says Mr Mike Smith, the current managing director, who joined in 1965.

But nearly two decades of steady growth and an excellent reputation in the computer industry took a knock in 1980/81 when an ill-fated diversification into micro-computer software plunged the company into pre-tax losses of £1.42m, on turnover of £13.1m, against a profit of £689,000 in 1979/80.

A major reorganisation followed. A boardroom shake-up led to the departure of Mr Alex d'Agapeyeff, the company's chairman and co-founder, with Mr Smith moving up to take over as chief executive. There was a financial reconstruction, involving the injection of new institutional money, and the micro venture at the root of the problems was divested to its management (and has since become a successful business). "It was," says Mr Smith, "a watershed."

The company has bounced back quickly. It returned to profit the following year and has seen sharp increases ever since, with taxable income consistently outstripping revenue growth. Analysts are expecting pre-tax profits of up to £2m in *the year just ended, around* 50 per cent higher than 1983/84.

Three factors, in particular, appear to lie behind this:

● CAP has concentrated most of its resources on the provision of *tailor-made computer software systems*, which had long been the company's principal skill, rather than on the riskier *business of software products*—software which can be used for many different applications. It does sell products, but largely as an adjunct to its bespoke work.

Mr Mike Smith, chief executive of CAP

● It has been developing as a supplier of computer systems on a turnkey basis — providing the hardware as well as the software. "The growing complexity of computer systems means that customers are looking increasingly for a single contractor to deal with," says Mr Smith. "And an independent like CAP has a substantial advantage since it is unconnected with any single hardware manufacturer."

● The company has been homing in more sharply on specific markets which appear to offer the best returns.

Some 45 per cent of its revenue comes from industry and commerce, with 27 per cent each from financial services and defence/scientific work. This broad spread (with no single client representing more than 10 per cent of revenue) should give it a considerable income stability.

Within each sector it has targeted particular fields. For *example, in financial services, it* is particularly strong in Electronic Funds Transfer at Point of Sale (EFTPOS — the technical name for cashless shopping—and is consultant to a major study by UK clearing banks on implementing this. It also specialises in corporate cash management and dealing room systems.

However, CAP is still highly dependent on the UK market, which provides some 80 per cent of revenue, and is keen to expand abroad.

It already has some operations in Europe (with offices in the Netherlands), an office in New York serving the financial services market, and it recently opened an office in Singapore, where it has won a prestigious contract for the island state's EFTPOS system in the face of strong competition.

Top of the list for major expansion—almost certainly by an acquisition—is the U.S. though the company acknowledges that the competition there is particularly intense.

"The objective," says Mr Smith, "is to get CAP regarded as one of the world's leading systems companies, and that means working on a global scale. So many of our clients—such as in financial services—work internationally and we have to deliver in those markets."

A desire for acquisitions is *one of the main reasons for CAP* coming to market. Another is the growing demands for working capital for internal growth. "The computer services industry is growing at 30 per cent a year and we would expect to match that," says Mr Smith. "Systems contracting is also more capital intensive. I anticipate our fixed capital per employee increasing by a factor of three over the next four years."

A third factor behind the flotation—and the main reason for its timing — is the solving earlier this year of a lengthy debate over the company's shareholding structure.

CAP

CAP was wholly owned by management and staff until 1976, when the National Enterprise Board and Charterhouse Development took stakes as part of an NEB scheme to promote UK software products worldwide. CIN Industrial Investments came in as another institutional shareholder under the 1981 refinancing.

However, the change of policy towards the NEB by the Conservative Government meant that it was not going to be a long term source of funds for CAP. Negotiations began for staff to buy out its 37 per cent holding, with a view to subsequent flotation.

The NEB reached agreement on a deal, but Ferranti then came in with a substantially higher offer for the shares—opposed by CAP. This placed the NEB in a dilemma, since it was required to get the best possible deal for the taxpayer.

The problem was solved by a capital reconstruction in February which allowed staff to match the Ferranti offer and buy the shares. Prior to flotation they will own just under 50 per cent of the equity, with the institutions the remainder.

The offer to staff was taken up by more than 800 employees and twice oversubscribed. And that, in an industry notorious for its high staff turnover, seems a substantial vote of confidence in the company's future.

SHARE STAKES

Changes in company share stakes announced over the past week *include*:

Exco International—On May 22 four directors, Richard Worthington, John O'Neill, Phil D'Angelo and J. H. Gunn, each sold 200,000 shares at £6.74½p.

Samuel Properties—On May 23 director N. A. Samuel sold 50,188 shares at 164p per share from his beneficial holding which is thereby reduced to 400,000 shares.

T.R. Energy Stakes—T.R. Industrial and General Trust disposed of its entire 2.05m ordinary (8.7 per cent) and has no further interest.

Amari—J. P. Pither, managing director, has disposed of 300,000 *ordinary shares and* now holds 109,610 ordinary shares and 924,450 of the "B" *ordinary shares.* K. T. Winterton, also a director, has sold 62,530 ordinary shares and now holds 937 ordinary shares and 129,735 of the "B" *ordinary shares.*

Thomas Robinson and Son—Virani Group UK now beneficial owner of 335,000 ordinary (8.375 per cent).

Yelverton Inv.—Clabir now holds total of 2,405,000 ordinary (29.95 per cent).

Walker and Homer Group—D. R. Mears, a director, has sold 100,000 shares thereby reducing his holding to 3,107,815 shares. J. D. Payne, a director, has sold 45,000 shares thereby reducing *his holding to 1,616,640 shares.*

RECENT ISSUES

EQUITIES

Issue price	Amount paid up	Latest Renunc. date	1985 High	1985 Low	Stock	Closing price	+ or −	Net Div.	Times covered	Gross Yield	P.E. Ratio
‡95	F.P.	28/6	106	104	✠Abbeycrest 10p	104	......	48.5	2.5	3.4	15.5
‡‡360	N.P.	16/5	95	77	Anglo EastPlants	90	......	—	—	—	
—	F.P.	—	48	27	Do. Warrants	42	......	—	—	—	—
§125	F.P.	31/5	181	164	✠Aspen Comms. 5p	174	......	u2.6	2.8	2.1	21.4
172	F.P.	28/5	188	176	Asda Property 20p	182	......	u5.0	2.1	2.4	24.5
—	F.P.	—	850	750	Banco de Bilbao S.A.	800	......	Q25%	2.5	7.4	5.4
—	F.P.	—	700	650	Banco de Santander	656	......	—	—	—	—
375	300	10/9	263	215	British Aerospace 50p	217	−5	15.65	3.1	6.0	7.3
§75	F.P.	—	95	80	✠Browne (C.) Car 10p	85	......	bg2.5	3.4	4.2	14.4
166	F.P.	31/5	175	168	✠Clayform Props. 5p	170	......	bg7.5	2.1	6.5	14.8
135	F.P.	21/6	135	115	Coloroll 10p	115	+1	bg4.6	2.5	5.6	10.4
§84	F.P.	21/5	105	97	✠Datron Int'l. 5p	100	+2	u1.0	5.9	1.4	11.8
200	F.P.	31/5	300	260	Domino Print. Scienc.	270	−5	u1.75	4.3	0.9	38.0
§117	F.P.	31/5	150	120	✠Electron House 10p	125	......	bg2.7	1.9	3.1	22.7
§300	F.P.	28/6	410	370	✠H'rimes Albrecht 10p	385	+15	u3.5	4.1	1.3	27.7
§150	F.P.	7/6	205	165	✠Huntleigh Tech 5p	200	......	u1.6	5.8	1.1	21.6
100	F.P.	21/6	103	101	MartinCurrie Pac.50p	101	......	—	—	—	—
§28	F.P.	14/6	34	26	✠Maxiprint 1p	35	−1	-	—	—	—
§120	F.P.	7/6	161	145	✠Moorgate Group 5p	150	......	bg2.0	5.2	1.6	14.4
41	F.P.	—	47½	43	✠Perkins(J.)Meats10p	45	+2½	b.g1.8	2.0	5.7	11.8
110	F.P.	7/6	112	105	Persimmon 10p	105	−1	bg4.75	3.6	6.5	6.0
£7.25'	F.P.	26/4	86	79	Plantation Tst	79	......	—	—	—	—
—	F.P.	—	40	38	Do. Warrants	38	......	—	—	—	—
100	F.P.	7/6	106	90	Prestwick 5p	90	......	u2.1	3.5	3.3	12.2
§175	F.P.	7/6	205	175	✠Sherwood Com 10p	183	......	62.75	5.4	2.1	12.9
§120	F.P.	26/6	125	112	✠Viewplan 5p	112	−3	u1.86	4.0	1.6	20.3
§68	F.P.	24/5	72	68	✠Wyko Group 10p	68	......	b2.4	2.4	5.0	11.6

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1985 High	1985 Low	Stock	Closing price	+ or −
—	F.P.	—	85	83	Anglo-East Plts. 12½% Uns. Ln. 95-98		——
††	F.P.	25/6	107	100	Bramall (C.D.) 15% Cnv. Uns. Ln. 99/2003	105	−2
=	Nil	5/7	7	8	Lon. & Edin. 6½% Conv. Cum. Rd. Prf.	7	−1
90.705	£50	5/6	30¾	29½	Malaysia 10¾% Ln. 2009	30¾	......
—	F.P.	—	100	99¾	NationwideBldg.Soc. 12½% 12/5/86	100	......
—	F.P.	6/6	99	92	Plantation Trst 7½% Cnv. Uns. Ln. 2000	92	
‡	F.P.	6/6	105	105	Queens Moat 7% Cnv. Rd. Prf.	107	−1
‡	Nil	19/7	5pm	2pm	Russell (A.) 5.75% Cum. Cnv. Rd. Prf.	2pm	−1
94.895	£40	12/7	36¾	30	Spain(Kingdom of) 11¾% Ln 2010	35¾	+1¼
‡	Nil	—	10½	6½pm	Woolworth 8½% Cov. Uns. Ln. 2000	7pm	......

RIGHTS OFFERS

Issue price	Amount paid up	Latest Renunc. date	1985 High	1985 Low	Stock	Closing price	+ or −
195	Nil	16/7	21pm	6pm	Anchor Chemical	6pm	......
200	F.P.	20/6	380	353	Bank of Scotland £1	380	......
150	F.P.	14/6	393	323	Barclays £1	375	......
550	Nil	5/7	40pm	22pm	Beazer (C.H.) 70p	24pm	......
25	F.P.	25/6	29½pm	25	Brit. Empire Sec. & Gen. 5p	25	......
134	Nil	—	20pm	20pm	✠Godwin Warren	20pm	......
80	Nil	26/6	10pm	5pm	✠Grosvenor Square 10p	10pm	......
66	F.P.	5/7	80	73	Lon. & Northern	72	......
515	Nil	12/7	127pm	110pm	Low (Wm.) 20p	122pm	......
295	F.P.	12/6	360	335	Memec 10p	335	......
95	F.P.	7/6	102½	95	Nationwide Leisure	95	......
25	F.P.	28/6	43	39	Newman Inds. 10p	41	......
70	F.P.	4/7	77pm	72pm	✠Rivlin (I.D.S.) 5p	75	......
120	Nil	12/7	8pm	10pm	Suter 5p	8pm	......
222	F.P.	28/6	260	238	Tesco 5p	255	......
10	Nil	12/7	21pm	17pm	"The Times" Veneer	17pm	......
150	Nil	12/7	54pm	28pm	Tomkins (F.H.) 5p	41pm	......
2	Nil	—	1½pm	1½pm	Willaire Systems	1½pm	......

Renunciation date usually last day for dealing free of stamp duty. *b* Figures based on prospectus estimates. *d* Dividend rate paid or payable on part of capital, cover based on dividend on full capital. *g* Assumed dividend and yield. *u* Forecast dividend cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1985. H Dividend and yield based on prospectus or other official estimates for 1984. Q Gross. *p* Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ‖‖ Allotment letters or fully-paid. ‡‡ Introduction. ✠ Unlisted Securities Market. § Placing price. T Figures assumed. †† Official London Listing. ‡‡ Dealt in under Rule 535(3).

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

Company	Date	Announcement last year	Company	Date	Announcement last year
Amersham International	June 11	Final 3.1	Imperial Cont Gas	July 3	Final 8.5
Anglo Amer Corp SA	June 4	Final 85c	Intasun	July 3	Final 2.6
*Argyll Gp	June 11	Final 4.643	Johnson Matthey	June 20	Final 7.0
*Avana	June 17	Final 5.626	LRC Intl	June 19	Final 2.35
BPB Inds	June 27	Final 4.2	*McCorq'dale	June 4	Interim 2.0
Bassett Foods	June 13	Final 4.55	*Metal Box	June 11	Final 9.19
*Beecham	June 12	Final 5.6	*Meyer Intnl	June 18	Final 3.1
Berisford (S. & W.)	June 18	Interim 3.5	*NatWest	July 30	Interim 12.0
British Land	June 19	Final 1.5	† [illegible]		Final due
*British Telecom	June 19	Final due	*Northern Foods	June 19	Final 2.5
Burnett and Hallamshire	June 22	Final 4.75	*Pegler Hattersley	June 5	Final 6.5
Cable and Wireless	June 28	Final 4.1	*Pilkington Bros	June 12	Final 6.5
Centrovincial Estates	June 14	Final 3.0	Powell Duffryn	June 20	Final 11.0
Charter Cons	June 27	Final 7.25	Racal Electronics	June 26	Final 2.16
*Dawson Intl	June 20	Final 4.9	*Redland	June 13	Final 6.175
*De La Rue	June 4	Final 18.4	*Reed Intnl	June 5	Final 11.5
Electrocomponents	June 25	Final 2.7	Scottish and Nwcstle Brws	July 3	Final 3.64
Elliott (B.)	June 14	Final nil	*600 Group	June 13	Final 9.5
*English China Clays	June 7	Interim 3.6	*Sketchley	June 5	Final 2.91
Ferranti	June 27	Final 4.4	Staveley Inds	June 14	Final 4.0
*Fitch Lovell	June 20	Final 6.7	Tesco	June 13	Final 2.6
GEI Intl	June 19	Final 3.555	Trusthouse Forte	June 25	Interim 1.125
Great Portland Ests	June 12	Final 4.5	*Unigate	June 17	Final 4.75
Guinness	June 12	Interim 1.82	*Valor	June 12	Final 2.926
*Habitat Mothercare	June 6	Final 4.5	Vantona Viyella	July 3	Interim 4.0
Hambros	June 26	Final 42.75	Wedgwood	June 19	Final 3.5
*Hanson Trust	June 4	Interim 1.75	Westland	June 13	Interim 3.0

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

UK COMPANY NEWS

Laporte results show a significant rise this year

THE CURRENT year at Laporte Industries, chemical manufacturer, had started well, and the group performance so far was significantly higher than that of the corresponding period last year, said Mr R. M. Ringwald, the chairman, at the annual meeting.

As already known, profits in 1984 showed an increase of more than 50 per cent for the second successive year. Pre-tax figures jumped from £30.2m to £47.5m, on turnover of £385.6m (£390.2m).

Since January, Laporte had purchased two companies in the U.S. — Leisure Time Chemicals in California and Aspen Industries in Syracuse. Both of these companies had a significant presence in pool and spa chemicals and would materially strengthen the group's position in the U.S. in this growing market, the chairman said.

The duplication of the group's Californian-based Exsil operations within Micro-Image Technology in Derbyshire to serve the European market for silicon wafer reclaiming was on schedule. Laporte had been given permission by the Spanish Government to purchase the outstanding shares which it did not own of Minas de Gador in Spain.

Members were told that Laporte had authorised substantial capital expenditure for a multi-purpose plant at its new site at Seal Sands being developed by Fine Organics, a company bought last year. This development of the Seal Sands site would bring a substantial number of new jobs to Teesside, Mr Ringwold said.

A similar level of capital investment being undertaken at Widnes on new clay products would also create significant additional employment.

Regarding Interox, the construction of the new hydrogen peroxide facility in Warrington was on target and the U.S. Interox operations were now generating increasing profits. A considerable number of other projects around the world were in hand, which the chairman hoped would be finalised this year.

● At the AGM of Fothergill & Harvey, Mr L. Stevens, the chairman, said the board was confident of a further increase in profits this year. The group had made an encouraging start with sales in the first four months 14 per cent higher than the corresponding period of 1984. But rising costs, high interest rates and a strengthening pound were affecting margins.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Finals: Airflow Streamlines, FKI Electricals, TR Natural Resources Investment Trust, J. W. Wassall.

FUTURE DATES

Interims—
LPA Industries ... July 1
Raeburn Investment Trust ... June 12

Finals—
Alphameric ... June 17
Avana ... June 17
Beecham ... June 12
Dewson International ... June 20
Finlay (James) ... June 13
Southwest Resources ... June 10

Seltrust's revised scheme is delayed

By Kenneth Marston, Mining Editor

An overwhelming vote (99.4 per cent) of minority shareholders in British Petroleum's 75.4 per cent-owned Australian subsidiary, Seltrust Holdings, has approved the latter's revised reorganisation scheme at the Perth meeting.

However, MIM Holdings, which has 40 per cent of the BP group's Agnew nickel mine in Western Australia, has issued a summons that the deal breaches the joint venture agreement over Agnew.

This means that until the problem has been settled the Seltrust scheme cannot be approved. It is stated that this will mean a delay whereby the effective date of the Seltrust scheme will be put back from the previously expected June 24 when dealing in the shares of the new Paragon Resources (offered to Seltrust minority holders) were due to begin in Australia and London.

Nationwide Leisure full listing

Nationwide Leisure, the package holiday group and caravan park operator which came to the Unlisted Securities Market just two years ago, has graduated to the main market.

In the Listing Particulars for the introduction of the share, the company is forecasting pre-tax profits of £1.25m for the year ended October 31, 1984 (£843,000), and a dividend of 3.75p (2.5p) per share.

The forecast is the same as that made when the company announced a £1m rights issue in April, it is stated.

Sedgwick sells Lloyd's underwriting agency

Sedgwick Group, Britain's largest independent insurance broker, has reached an agreement in principle for the sale of its Sedgwick Forbes Lloyd's underwriting agency interests.

The agency is being bought by a group of the active underwriters at Lloyd's who run insurance syndicates at Lloyd's—483/137, 484, 47/440 and 48, under the management of the agency. In the sale Sedgwick is receiving £3m plus additional consideration of at least £1.25m, being a percentage of any aggregate profit commission earned in respect of the management of the syndicates in the underwriting years 1983 to 1989 in excess of an agreed sum.

Under the deal £2m will be paid in cash on completion and £1m will be repaid by 1993. During this period the amount outstanding will bear interest. The estimated profit before tax of the agency in 1984 was £1.3m.

The underwriters who are making the purchase, through a company called Newco, are Messrs R.P. Chandler, R.E. Thomson, R. Ballantyne and W.E. Simms. Two directors of the agency Mr R. A. Denton and Mr S. J. Cox are also forming part of the buyout consortium.

The move has been triggered by the divestment legislation at Lloyd's which requires that all Lloyd's insurance brokers divest themselves of their interests in managing agencies by mid 1987.

TR Industrial and General lifts revenue

After-tax revenue of TR Industrial and General Trust advanced sharply from £5.87m to £8.23m in the year to March 31, 1985. Earnings per 25p share increased to 3.8p, against 2.87p previously which excluded an exceptional item.

The final dividend is raised to 2.3p net for a higher total of 3.5p (3.15p). Net asset value climbed from 178.9p to 202p per share, after deducting prior charges at par.

Inmos stake sold

Thorn EMI said yesterday that one of the founders of Inmos, the microchip company it bought from the Government last year, had recently sold a substantial proportion of his shareholding in Inmos to Thorn. However, the company said that it could not name the individual for "technical reasons."

Thorn paid the Government £95m for a majority stake in Inmos. One of the company's three founders, Mr Paul Schroeder, sold his shares to Thorn last year, but the other two, Mr Dick Petritz and Prof Ian Barron, did not.

FT Share Information

The following securities have been added to the Share Information Service:—

Howard Group (Section: Insurance).

Inter - American Development Bank 9½pc Loan Stock 2015 (Int'l. Bank & O'seas. Govt. Sterling Issues).

Norscot Hotels (Hotels & Caterers).

Saatchi & Saatchi 6.3pc Conv. Cum. Red. Pref. (Paper, Printing and Advertising).

Wayne Kerr (Electricals).

Williams Holdings 5pc Cum. Cnv. Red. Pref. (Industrials).

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FINANCIAL TIMES STOCK INDICES

	May 31	May 30	May 29	May 28	May 24	May 23	1985 High	1985 Low	Since Compilation High	Since Compilation Low
Government Secs.	81.86	81.24	81.02	80.87	80.80	80.83	82.00	78.02	127.4	40.0
Fixed Interest	86.06	86.02	85.91	85.84	85.78	85.70	86.19	82.17	150.4	50.0
Ordinary	1002.5	1004.2	999.1	1006.5	1001.6	1010.2	1024.5	928.7	1024.5	40.0
Gold Mines	461.0	461.4	463.0	455.4	477.3	479.8	536.9	439.5	734.7	43.4
FT Act. All-Share	634.16	634.87	632.95	636.76	634.53	640.34	642.98	581.88	642.98	61.92
FT-SE100	1313.0	1314.7	1312.0	1317.4	1313.8	1325.3	1342.4	1206.1	1342.4	986.9

Closing prices, May 31

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
23½	16	AAR	.48	2.6	14	276	18¾	18⅝	18¾	
18½	9⅜	AGS			12	26	14⅛	13¾	14	+⅛
18¾	9⅝	AMCA				3	10⅞	10¾	10¾	
21½	13¾	AMF	.50	2.5	56	1281	19⅝	19¼	19⅝	+⅜
47⅛	24¼	AMR			11	8974	u47¾	45¼	47⅝	+2⅝
21½	18⅝	AMR pf2.18		10.		87	21⅜	21¼	21¼	−⅛
25⅞	22⅞	ANR pf 2.67		11.		1	24	24	24	−½
14¼	7¾	APL				7	8¾	8⅝	8¾	
65¼	44⅜	ASA		24.0		709	50⅝	49¾	50⅝	+¾
27	14⅛	AVX	.32	2.1	12	114	15¼	14½	15¼	+½
24⅞	16	AZP	2.72	11.	8	1089	u25¼	24⅝	25⅛	+⅜
54⅝	36¾	AbtLab	1.40	2.6	16	2172	54⅜	53½	54⅛	+½
25⅞	17	AccoWd	.44	2.0	17	224	22⅜	21⅝	22¼	+½
20¼	12½	AcmeC	.40	2.8		130	14⅞	14⅜	14⅜	−½
10½	7⅜	AcmeE	.32b	4.0	10	16	8⅛	8	8	
17½	15	AdaEx	1.92e	11.		56	17⅜	17⅛	17⅜	
20	11⅞	AdmMl	.32	2.1	6	10	15⅜	15⅛	15⅜	
19½	8⅝	AdvSys	.53t	5.0	17	21	10½	10¼	10½	+⅛
41⅛	25⅛	AMD			11	4694	27⅜	26½	26½	−⅛
12¾	6⅞	Advest	.12	1.4		134	8⅞	8⅝	8¾	−⅛
14⅝	8¾	Aerflex			12	178	13¼	12⅞	13	−⅛
46⅝	27¼	AetnLf	2.64	5.8	33	3106	45¾	45⅛	45½	+¼
57¾	52⅜	AetL pf5.83e		10.		26	56½	56¼	56½	+⅜
36	15¾	Ahmns	1.20	3.6	14	684	33⅝	32⅞	33½	+½
3⅝	2½	Aileen			23	34	3	3	3	
53½	38⅝	AirPrd	1.20	2.3	12	678	53¼	52⅜	52¾	−¼
24⅜	13	AirbFrt	.60	2.9	12	161	21¼	21	21	−⅝
2	1	AlMoa s			23	90	1⅞	1⅝	1⅝	
33⅝	26¾	AlaP pfA3.92		12.		9	31¾	31⅝	31¾	−¼
8	6	AlaP dpl.87		11.		51	7¾	7⅝	7¾	+⅛
78¼	61½	AlaP pf 9		12.		z200	75½	75½	75½	+1½
73½	57	AlaP pf 8.16		11.		158	71¾	71	71¾	+⅝
70	56	AlaP pf 8.28		12.		z600	68	67¼	67¼	−1¼
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 25

AMERICAN STOCK EXCHANGE COMPOSITE CLOSING PRICES

Closing prices, May 31

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										

Continued on Page 26

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Continued from Page 24

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										
23⅜	17	Wynns .60		3.4	7	63	17¾	17¼	17¾	+⅛
		X Y Z								
50½	33¼	Xerox 3		6.0	21	1983	u50	48¾	50	+⅞
54⅝	45¼	Xerox pf5.45		10.		32	u54½	54¼	54½	+¼
30	24	ZaleCp 1.32		4.4	9	636	u30¼	29⅞	30⅛	+¼
23¼	12	Zapata .84		6.9	24	1920	12⅝	12⅛	12¼	−⅜
56	24	Zayre s .48		.9	17	1005	53½	52¼	52¼	−1⅛
30	18⅛	ZenithE			9	2459	23⅛	22	22⅞	+½
21⅞	14⅝	Zero s .32		1.7	16	33	18⅝	18⅛	18⅝	+⅜
33¾	21⅞	Zurnin 1.32		3.9	12	171	33¾	33¼	33¾	+¼

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a–dividend also extra(s). b–annual rate of dividend plus stock dividend. c–liquidating dividend. cld–called. d–new yearly low. e–dividend declared or paid in preceding 12 months. g–dividend in Canadian funds, subject to 15% non-residence tax. i–dividend declared after split-up or stock dividend. j–dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k–dividend declared or paid this year, an accumulative issue with dividends in arrears. n–new issue in the past 52 weeks. The high-low range begins with the start of trading. nd–next day delivery. P/E–price-earnings ratio. r–dividend declared or paid in preceding 12 months, plus stock dividend. s–stock split. Dividends begins with date of split. sls–sales. t–dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u–new yearly high. v–trading halted. vi–in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd–distributed. wi–when issued. ww–with warrants. x–ex-dividend or ex-rights. xdis–ex-distribution. xw–without warrants. y–ex-dividend and sales in full. yld–yield. z–sales in full.

WORLD STOCK MARKETS

OVER-THE-COUNTER Nasdaq National Market closing prices

[illegible]

Continued on Page 27

AMERICAN STOCK EXCHANGE CLOSING PRICES

Continued from Page 25

[illegible]

CANADA

TORONTO

Closing prices May 31

[illegible]

MONTREAL

Closing prices May 31

[illegible]

FRANCE

[illegible]

GERMANY

[illegible]

NORWAY

[illegible]

ITALY

[illegible]

NETHERLANDS

[illegible]

SWITZERLAND

[illegible]

SWEDEN

[illegible]

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

SPAIN

[illegible]

AUSTRALIA

[illegible]

SOUTH AFRICA

[illegible]

HONG KONG

[illegible]

JAPAN

1985 High	Low	June 1	Price Yen
1,570	1,040	Ajinomoto	1,150
2,097	1,570	Alps Electric	1,570
1,134	927	Amada	932
1,100	621	Asahi Chem	1,100
975	850	Asahi Glass	879
550	500	Bridgestone	515
1,460	1,180	Canon	1,190
2,060	1,570	Casio Comp.	1,650
1,250	1,000	Chugai Pharm.	1,080
595	466	Citizen	466
748	605	Daiei	714
1,070	925	Dai Nippon Ptg	1,050
665	532	Daiwa House	665
494	329	Ebara	435
2,008	1,165	Eisai	1,430
9,300	7,190	Fanuc	8,210xc
1,680	1,290	Fuji Bank	1,570
1,950	1,550	Fuji Film	1,790
1,320	960	Fujisawa	980
1,260	1,060	Fujitsu	1,080
3,540	1,600	Green Cross	2,650
450	352	Hasegawa	450
973	577	Heiwa Real Est.	975
895	736	Hitachi	758
1,210	1,050	Hitachi Credit	1,090
1,650	1,210	Honda	1,330
739	680	House Food	735
2,460	1,980	Hoya	1,980
428	323	Itoh (C)	420
2,790	2,270	Ito-Yokado	2,520
1,480	851	Iwatsu	851
370	315	JACCS	350
7,200	4,850	JAL	6,800
826	660	Jusco	826
518	269	Kajima	515
852	724	Kao Soap	852
710	556	Kashiyama	685
745	545	Kirin	745
990	870	Kokuyo	978
479	433	Komatsu	450
748	601	Konishiroku	710
350	318	Kubota	329
643	510	Kumagai	617
7,100	4,530	Kyocera	4,530
630	455	Maeda Const.	605
1,460	1,020	Makino Milling	1,080
1,280	900	Makita	1,000
357	300	Marubeni	349
649	540	Marudai	634
1,190	952	Marui	1,190
1,690	1,400	MEI	1,410
820	625	M'ta Elec. Works	820
1,670	1,390	M'bishi Bank	1,590
647	512	M'bishi Corp	638
410	381	M'bishi Elect	381
779	539	M'bishi Estate	779
291	234	MHI	289
369	324	Mitsui Co.	362
840	592	Mitsui Estate	837
604	365	Mitsukoshi	604
936	819	NGK Insulators	850
298	210	Nihon Cement	293
1,480	1,280	Nippon Denso	1,300
1,250	1,000	Nippon Elect	1,020
417	322	Nippon Express	412
2,400	1,330	Nippon Gakki	1,460
143	130	Nippon Kokan	137
907	774	Nippon Oil	861
693	560	Nippon Seiko	565
638	520	Nippon Shimpan	618
161	143	Nippon Steel	150
372	325	Nippon Suisan	362
12,060	9,360	NTV	10,500
286	226	Nippon Yusen	280
685	602	Nissan Motor	610
548	452	Nisshin Flour	518
184	156	Nisshin Steel	166
1,320	885	Nomura	1,140
1,430	1,060	Olympus	1,190
3,540	2,690	Orient Leasing	2,900
3,870	1,690	Pioneer	1,690
691	602	Renown	690
977	860	Ricoh	925
1,390	980	Sankyo	1,380
499	428	Sanyo Elect	428
499	399	Sapporo	485
693	535	Sekisui Prefab	693
9,440	8,450	Seven Eleven	8,850
1,180	915	Sharp	915
789	685	Shimadzu	744
849	642	Shionogi	849
1,290	1,040	Shiseido	1,120
5,020	3,450	Sony	4,220
1,070	870	Stanley	875
1,860	1,600	Sumitomo Bank	1,830
957	823	S'tomo Elect	825
684	548	S'tomo Marine	680
158	143	S'tomo Metal	147
527	460	Taihei Dengyo	500
237	196	Taisei Corp	237
1,440	960	Taisho Pharm.	1,200
946	757	Takeda	881
6,550	4,630	TDK	4,680
478	429	Teijin	458
810	621	Teikoku Oil	785
912	700	Tokyo Marine	910
862	751	TBS	852
2,040	1,440	Tokyo Elect.Pwr.	2,040
217	160	Tokyo Gas	215
770	638	Toyko Sanyo	669
891	694	Tokyo Style	880
428	301	Tokyu Corp	410
900	845	Toppan Print	863
503	426	Toray	481
435	360	Toshiba Elect	365
740	625	TOTO	730
1,060	807	Toyo Seikan	1,000
1,380	1,200	Toyota Motor	1,230
3,440	1,740	Victor	1,760
740	677	Wacoal	711
835	680	Yamaha	730
4,360	2,600	Yamanouchi	3,060
760	610	Yamazaki	760
513	361	Yasuda Fire	512
490	410	Yokogawa Bdge.	490

SINGAPORE

1985 High	Low	May 31	Price $
1.86	1.5	Boustead Hldgs.	1.67
2.76	2.42	Cold Storage	2.48
6.4	4.98	DBS	6.2
6.5	4.7	Genting	6.3
2.59	1.88	Haw Par. Bros.	2.38
3.32	2.87	Hong Leong Fin.	2.98
2.74	2.35	Inchcape Bhd.	2.42
1.9	1.41	Keppel Shipyard	1.59
6.45	5.3	Malay Banking	6.2
2.6	2.2	Malay Utd. Int.	2.56
1.05	0.86	Multi Purpose	0.89
9.55	8.5	OCBC	9.35
4.36	3.52	OUB	3.54
1.78	1.42	Public Bank	1.61
2.16	1.63	Sime Darby	2.06
6.85	5.7	Singapore Press.	6.15
4.74	4.22	Straits Trdg.	4.44
2.93	2.65	Tate Lee Bk.	2.8
4.66	4.12	UOB	4.38

NOTES:—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

WORLD STOCK MARKETS

OVER-THE-COUNTER

Continued from Page 26

Stock	Sales (Hnds)	High	Low	Last	Chng
[illegible]					

Indices

NEW YORK — DOW JONES

	May 31	May 30	May 29	May 28	May 24	1985 High	1985 Low	Since Compil'n High	Since Compil'n Low
♦Industri'ls	1315.41	1305.78	1302.38	1301.87	1301.87	1315.41 (31/5)	1184.96 (4/1)	1315.41 (31/5/85)	41.22 (2/7/32)
H'me Bnds	78.95	78.58	78.46	78.25	77.92	78.95 (31/5)	72.27 (20/3)	—	—
Transport..	645.16	629.65	629.98	628.10	627.55	645.16 (31/5)	553.03 (4/1)	645.16 (31/5/85)	12.32 (8/7/32)
Utilities	163.32	162.29	162.19	162.29	161.98	164.75 (17/5)	146.54 (4/1)	164.75 (17/5/85)	10.5 (28/4/42)
TradingVol 000-†	134,780	109,330	96,540	90,690	85,970	—	—	—	—

♦Day's High 1320.79 (1314.16) low 1298.79 (1293.91)

Industrial div. yield %	May 24	May 17	May 10	year ago (approx)
	4.70	4.77	4.81	5.07

STANDARD AND POOR'S

	May 31	May 30	May 28	May 24	May 23	1985 High	1985 Low	Since Comp'n High	Since Comp'n Low
Indust'ls	209.85	208.01	208.14	208.74	208.04	210.02 (21/5)	188.24 (4/1)	210.02 (21/5/85)	3.52 (30/6/32)
Comp's'te	189.56	187.75	187.85	188.29	187.60	189.72 (20/5)	163.68 (4/1)	189.72 (20/5/85)	4.40 (1/6/32)

	May 22	May 15	May 8	year ago (approx)
Industrial div. yield	3.74	3.84	3.92	4.23
Industrial P/E ratio	11.64	11.37	11.14	11.76
Long Gov. Bond yield	10.75	10.98	11.35	13.40

N.Y.S.E. ALL COMMON

May 31	May 30	May 29	May 28	1985 High	1985 Low
109.63	108.75	108.66	108.75	109.72 (20/5)	94.60 (4/1)

Rises and Falls

	May 31	May 30	May 29
Issues Traded	2,014	1,988	2,000
Rises	1,054	768	787
Falls	530	715	722
Unchanged	430	505	491
New Highs	202	142	141
New Lows	15	22	16

TORONTO

	May 31	May 30	May 29	May 28	1985 High	1985 Low
Metals & Minerals	1984.7	1984.5	2083.2	2014.0	2190.07 (15/2)	1896.0 (4/1)
Composite	2756.5	2728.8	2736.1	2738.0	2759.7 (21/5)	2348.5 (8/1)
MONTREAL Portfolio	136.49	133.81	133.78	134.13	135.05 (21/5)	117.00 (4/1)

	May 31	May 30	May 29	May 28	1985 High	1985 Low
AUSTRALIA						
All ord.(1/1/80)	873.4	874.6	878.4	885.1	904.5 (20/5)	715.5 (7/1)
Metals & Minls. (1/1/80)	537.7	539.5	542.9	558.3	583.8 (20/5)	362.5 (7/1)
AUSTRIA						
Credit Aktien (2/1/62)	98.45	98.32	97.89	97.27	98.45 (31/5)	58.21 (24/1)
BELGIUM						
Brussels SE (1/1/80)	2564.78	2548.51	2545.45	2535.88	2564.78 (31/5)	2090.7 (18.1)
DENMARK						
Copenhagen SE (3/1/83)	—	190.87	191.45	192.20	193.84 (24/5)	158.44 (8/1)
FRANCE						
CAC General (31/12/82)	253.1	252.6	250.2	228.8	233.1 (31/5)	180.9 (3/1)
Ind Tendance (28/12/84)	130.4	138.1	128.6	127.7	130.4 (31/5)	100.1 (3/1)
GERMANY						
FAZ Aktien (31/12/58)	458.29	450.85	448.18	456.63	458.29 (31/5)	382.59 (3/1)
Commerzbank (1/12/53)	1546.7	1521.5	1510.1	1504.2	1545.7 (31/5)	1111.8 (3/1)
HONG KONG						
Hang Seng Bank(31/7/64)	1615.87	1621.66	1597.71	1570.84	1647.88 (17/5)	1220.74 (2/1)
ITALY						
Banca Comm Ital. (1972)	307.87	311.16	311.34	308.92	320.01 (23/5)	228.56 (2/1)
JAPAN**						
Nikkei-Dow (16/5/49)	12758.4	12780.3	12787.2	12694.9	12790.3 (30/5)	11545.2 (5/1)
Tokyo SE New (4/1/68)	997.03	1000.07	997.91	992.35	1006.96 (22/5)	916.93 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	211.4	210.5	210.8	210.7	213.0 (6/5)	185.8 (3/1)
ANP-CBS Indust (1970)	172.9	172.1	171.5	171.0	175.2 (7/5)	147.9 (3/1)
NORWAY						
Oslo SE (4/1/83)	345.02	338.93	338.20	336.28	345.6 (8/2)	298.16 (2/1)
SINGAPORE						
Straits Times (1966)	812.41	817.16	816.82	815.20	952.55 (7/5)	764.58 (18/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	—	(u)	1020.3	1059.8	1140.8 (15/4)	856.1 (11/2)
JSE Indust (28/9/78)	—	(u)	967.6	970.2	975.6 (24/5)	787.1 (7/3)
SPAIN						
Madrid SE (28/12/84)	109.59	109.75	109.25	108.61	117.41 (4/2)	101.48 (2/1)
SWEDEN						
Jacobson & P (11/58)	1372.08	1379.26	1370.08	1354.61	1486.98 (11/2)	1301.80 (2/1)
SWITZERLAND						
SwissBank Cpn.(31/12/58)	452.5	452.7	481.1	482.5	436.8 (24/5)	388.7 (3/1)
WORLD						
Capital Intl. (1/1/70)	—	211.3	210.6	218.2	212.8 (20/5)	194.6 (4/1)

** Saturday May 25: Japan Nikkei-Dow 12,593.76. TSE 986 32.

Base value of all indices are 100 except JSE Gold—255.7, JSE Industrial—264.3, and Australia, All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Mid-So Uti	3,255,500	14¼	—
Lilco	2,799,500	8¼	+1⅞
United Air	2,525,800	53¼	+4¼
ATT	2,008,600	23¾	+ ⅛
Xerox	1,983,000	50	+ ⅞
Sears Roebuck	1,956,700	38⅛	+ ⅛
Occidental Pet	1,836,800	31½	+ ⅛
Ohio Ed	1,744,200	15⅝	+ ⅛
Nabisco	1,596,600	82⅜	+2⅞
Archer-Dan	1,488,800	22½	+ ⅛

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's time table.

TODAY

COMPANY MEETINGS—
Booker McConnell, Great Eastern Hotel, Liverpool Street, EC, 12.00
Kennedy Brookes, Maxims de Paris, Clareville House, 31-35, Panton Street, SW, 10.30
Laird Group, Browns Hotel, Dover Street, W, 12.00

BOARD MEETINGS—
Finals:
Alflow Streamlines
FKI Elecs
TR Natural Resources Inv Tst
Wassall (J. W.)
Interims:
Carlton Communications

DIVIDEND & INTEREST PAYMENTS—
AB Electronic Products 2p
Ahmanson (H. F.) 30cts
Amdahl Corp 5cts
Ashdown Inv Tst 3½pcPf 1.225p
Beckman (A.) 1.95p
Bell (Arthur) 1.55p
Burnley (Borough of) 13pc 1987 6½pc
Consultants (Computer & Fin) 0.15p
Continental & Industrial Tst 5½pcPf 1.925p
English Property Corp 7pcLn 1998-2003 3½pc
Enserch Corp 4cts
Erith 2p
Goodyear Overseas Fin 12½pc Gtd Nts 1987 6¼pc
Halstead (James) Group 1.5p
Inco 5cts
Ingersoll-Rand 65cts
Legal & General Group 14p
Lyles (S.) 2.5p
MCD Group 2p
Nationwide Bldg Soc 11pc 3/6/'85 5½pc
Do. 10¼pc 9/12/85 5⅛pc
Ocean Transport & Trading 3.35p
Republic Hldgs (Reg) 100cts
Do. (Br) 100cts
Senior Engineering Grp 0.75p
Stanley (A. G.) Hldgs 1.5p
Sunleigh Electronics 0.245p
TR Trustees Corp 4½pcPf 1.575p
Ultramar 6.5p
Wells Fargo Fltg Rate Sub Nts 2000 $74.27
Weston (George) 13½pc Nts 1/6/87 $135

TOMORROW

COMPANY MEETINGS—
Allebone & Sons, Oakley Road, Rushden, Northants, 12.00
Beattie (James), 71-78, Victoria Street, Wolverhampton, 2.30
Blue Circle Inds, Inn on the Park, Hamilton Place, Park Lane, W, 12.00
Bowthorpe Hldgs, Gatwick Road, Crawley, W Sussex, 3.00
Hopkinsons Hldgs, Ladbroke Mercury Hotel, Ainley Top, Huddersfield, 12.00
Lamont Hldgs, North British Hotel, Princes Street, Edinburgh, 12.00
Office & Electronic Machines, 140-154, Borough High Street, SE, 12.00
Southampton, IoW & SOE Steam Packet, Polygon Hotel, Cumberland Place, Southampton, 12.30

BOARD MEETINGS—
Finals:
Atkins Bros (Hosiery)
Chapman Inds
De La Rue
Holden Hydroman
Morgan Communications
New Throgmorton Tst (1983)
Plysu
Time Prods
UKO Intnl
Interims:
Gieves
Hanson Tst
McCorquodale
Norcros
PLM

DIVIDEND & INTEREST PAYMENTS—
Allebone & Sons 1.25p
Anglo American Inv Tst 182.04385p
BFG Finance Fltg Rate Nts 1986 $249.17
Caltero Finance Gtd Fltg Rate Nts 1985 $49.92
Commercial Bank of Near East 30p
European Asian Capital Gtd Fltg Rate Nts 1987 $499.24
New Central Witwatersrand 2.03178p
Offshore Mining Gtd Fltg Rate Nts 1991 5p
Southampton, IoW & SOE Steam Packet 10p
Volvo AB A SKr 5.3, Do B SKr 5.3
Whatman Reeve Angel 6.6p
Young (H.) Hldgs 1.05p

WEDNESDAY JUNE 5

COMPANY MEETINGS—
Campari Intnl, Campari Hse, Priestley Way, Staples Corner, NW, 12.00
EIS Grp, Brewers Hall, Aldermanbury Square, EC, 12.00
Empire Stores (Bradford), Victoria Hotel, Bradford, 12.00
Lilley (F. J. C.), Holiday Inn, Argyle Street, Glasgow, 12.00
M. Y. Dart, Great Eastern Hotel, Liverpool Street, EC, 11.00
Mowlem (John) Westgate House, Ealing Road, Brentford, Middx, 11.00
Pearl Assurance, High Holborn, WC, 12.00
Ramco Oil Services, Skean Dhu Hotel, Altens, Aberdeen, 12.00
United Parcels, Overstone Solarium, Ecton Lane, Sywell, Northants, 12.00

BOARD MEETINGS—
Finals:
Brown and Jackson
Henderson Administration
Pegler-Hattersley
Reed Intnl
Sketchley
Interims:
Keystone Inv

DIVIDEND & INTEREST PAYMENTS—
Adwest Grp 1.6p
BSR Intnl 1.85p
Bentalls 1.75p
British Aerospace 8.4p
Chase Manhattan Fltg Rate Nts 2009 $249.17
Cons Gold Fields Fin Gtd Fltg Rate Nts 1995 £181.16
Damon Corp 5cts
General Foods Corp 0.625cts
Gillette 65cts
Korea Devel Bank Fltg Rate Nts 1989 $50.58
Laidlaw Grp 1.4p
Local Authority 10⅜pc 5/6/85 5³⁄₁₆pc
Do. 10pc 11/12/85 5pc
McKechnie Bros 2.5p
Rexnord 11cts
Svenska Cellulosa AB N/Res B Skr 3.5
Travis & Arnold 5.97p

THURSDAY JUNE 6

COMPANY MEETINGS—
Cluff Oil, Browns Hotel, Dover Street, W, 10.30
Etam, Barber-Surgeons Hall, Monkwell Sq, Wood Street, EC, 12.00
Folkes Grp, Plough & Harrow Hotel, 16, Hagley Road, Edgbaston, Birmingham, 12.00
Laing (John), Dacorum District Council Pavilion, Marlowes, Hemel Hempstead, 2.15
Marlborough Property Hldgs, Howard Hotel, Temple Place, WC, 11.30
Martin (Albert) Hldgs, Swallow Hotel, South Normanton, Derbyshire, 11.15
Owen Owen, Clayton Sq, Liverpool, 11.30
Palma Grp, Grand Hotel, Leicester, 12.00
Rush & Tompkins Grp, Royal Automobile Club, 89, Pall Mall, SW, 12.15
Scapa Hldgs, North Tyne Industrial Est, Longbenton, Newcastle upon Tyne, 12.00
Spear (J. W.), Richard House, Enstone Road, Green Street, Enfield, Middx, 12.00

BOARD MEETINGS—
Finals:
Brownlee
Buffelsfontein Gold Mng
Century Oils
Habitat Mothercare
LCP
Trans-Natal Coal
Walker (C. and W.)
Interims:
Grootvlei Propy Mines
Irish Distillers
Marievale Consd Mines
Nottingham Brick
St Helena Gold Min es
Smart (J.)
Stilfontein Gold Mng
Utd Spring and Steel
West Rand Consd Mines

DIVIDEND & INTEREST PAYMENTS—
Automotive Prods. 10.4pcDb 1996-2001 5.2pc
Avon Rubber 7½pc1stDb 1985-90 3¾pc
Brammer 5.25p
Cadbury Schweppes 9pc1stDb 1988-93 4½pc
Chemical New York Gtd Fltg Rate Sub Nts 1996 $246.95
First Interstate O'seas Gtd Fltg Rate Sub Nts 1995 $250.78
Ford Intnl Cap Corp 7¼pcLn 1980-86 3⅝pc
Freemans 3.5p
Glynwed Intnl 7½pcDb 1989-94 3¾pc
Greenall Whitley 4½pcDb 1987-92 2¼pc
Do. 7¼pcDb 1986-91 3⅝pc
K Shoes 7½pcDb 1986-91 3¾pc
Ladbroke Grp 8pcLn 1990-92 4pc
Lloyds Eurofinance Gtd Fltg Rate Nts 1992 $251.2
Local Authority 11¼pc 4.12.85 5⅝pc
Metal Closures Grp 7½pcDb 1986-91 3¾pc
Newhome-Veritas 9½pcDb 1993-98 4¾pc
Ramco Oil Services 0.45p
Rockware Grp 7pcDb 1988-93 3½pc
SGB Grp 9¼pcDb 1991-94 4⅝pc
Scott & Robertson 1.6p
Watney, Mann & Truman 7pcDb 1988-93 3½pc
Wells Fargo Fltg Rate Sub Nts 1994 $250.76

FRIDAY JUNE 7

COMPANY MEETINGS—
Bramall (C. D.), Norfolk Gardens Hotel, Hall Ings, Bradford 2.00
Cory (Horace), 17, Southampton Place, W, 12.00
Dewhirst (I. J.) (Hldgs), Royal York Hotel, 12.00
Gill & Duffus Grp, Baltic Exchange, 14-20, St Mary Axe, EC, 12.00
Hall (Matthew), Matthew Hall House, 7, Baker Street, W, 12.00
Harris Queensway, Harris House, 76, High Street, Orpington, Kent, 10.00
House of Lerose, Metropole Hotel, National Exhibition Centre, Birmingham, 12.00
Hunter, Hilsdown House, 32, Hampstead High Street, NW, 11.00
Ladbroke Grp, Westmoreland Hotel, Lodge Road, NW, 11.00
RMC Grp, Hyatt Carlton Tower Hotel, Cadogan Place, SW, 11.30
Rugby Portland Cement, Crown House, Rugby, 12.30
Scottish Television, Cowcaddens, Glasgow, 12.00
White Hart Hldgs, Dartington Hall, Totnes, Devon, 6.30
Williams Hldgs, Chateau Impney Hotel, Droitwich Spa, Worcs, 12.00

BOARD MEETINGS—
Finals:
GT Global Recovery Inv Tst
Somic
Interims:
English China Clays
Piccadilly Radio

DIVIDEND & INTEREST PAYMENTS—
Air Call 3.75p
Alcan Aluminium 5cts
Anchor Chemical Grp 3p
Aquascutum Grp 1.5p
Do. A 1.5p
Do 7½pcPf 1.75p
Bank of Scotland 9.25p
Boeing Co 40 5cts
Border & Southern Stockholders Tst 1.3p
Chepstow Racecourse 1p
Chubb 8⅝pcLn 1987-92 4¼pc
Highland Distilleries 0.55p
Homestake Mining 5cts
Lendo Hldgs 1p
Lilley (F. J. C.) 2.44p
Local Authority 10pc 5/6/85 5pc
Do 10½pc 4/12/85 5¼pc
Marlborough Property Hldgs 0.35p
Midland Intern Fin Gtd Fltg Rate Nts 1992 $249.62
Nu-Swift Inds 1.9p
Pineapple Dance Studios 1.5p
Town & City Properties 7½pc1stDb 1997-2002 3¾pc
Towe & Co 3p
UDO Hldgs 1.25p
United Parcels 2.2p

SATURDAY JUNE 8

COMPANY MEETINGS—
Nurdin & Peacock, Richmond Hill Hotel, Richmond, 11.30

INSURANCE

Computers help launch exercise in cost-cutting

BY ERIC SHORT

THE PAST few years have seen a series of disasters for UK composite insurance groups. Attention has been focused on the bloodbath in the U.S. insurance market, but the UK has been a far from happy ground for insurers. Underwriting losses have been the worst ever and second in size only to those of the U.S.

Insurance chief executives have bewailed the weather conditions and the deterioration in social habits which have resulted in more adverse weather claims, subsidence claims, theft claims and big fires, many caused by arson.

In the heyday of UK insurance, the reaction of companies would have been to increase premium rates—though operating margins in premiums were large enough to absorb fluctuations and many premium rates remained unchanged for decades.

However, the keen and growing competition for business, combined with high interest rates and strong underlying assets values, have blocked this solution. Companies have been forced to look at ways of controlling expenses, the only factor in the composition of the operating ratio under the control of individual companies.

In conjunction with the hostile environment for insurers, there have been changes in methods of operation. Advances in technology, combined with the growing sophistication of computer systems, have made many clerical jobs in the industry obsolete.

Companies do not need large numbers of people in head offices located in the City. The bulk of administration services can be carried out in locations where operating costs, including rents, are much lower. Administration centres can be linked to each other and to the central computer so information can be moved in several directions with speed.

Recent initiatives by Commercial Union, the most troubled of the UK composites, have been well publicised. It has relocated most of its head office staff from Central London to Croydon, where its mainframe computer was sited, and to Basildon. The head office staff has been cut by 15 per cent.

In the early 1960s, insurance companies were steadily expanding their branch network. The mergers and takeovers of the late 1960s meant the new insurance grouping was duplicating branches. The developments of the past few years have forced companies to reverse this and reorganise their branch structure.

An insurance inspector no longer has a sub-branch, with its attendant clerical staff, situated in his home town. Under the reorganisation, the inspector has to make greater use of his car in the area he covers and to keep contact with the branch which services him.

General Accident, Britain's largest motor insurer, had no need to relocate its head office, since this has always been in Perth. But it has embarked upon a rationalisation of its branch structure, closing down some 70 sub-branches, many in remote areas.

General Accident has shed some 1,000 staff. CU, which has also taken the opportunity to rationalise its branch structure, has reduced branch numbers by a third to 120. Staff numbers have been cut by some 10 per cent at CU's branches, resulting in a reduction of about 1,300 staff members on the general insurance side.

This pattern is repeated in all composite insurance groups, though some companies started the process earlier than others. Eagle Star, part of BAT Industries, has reduced its number of branches and sub-branches from 172 to about 130, with more closures in the pipeline.

How have insurance groups coped with the human angle? One is used to reading about wholesale enforced redundancies in the industrial sector. It appears, however, that insurance groups have achieved these staff reductions without widespread compulsory redundancy.

Many were female clerical staff, among whom the natural wastage rate is generally high. This could have resulted in a top-heavy, elderly workforce, so to restore the balance, companies have been running a system of voluntary redundancies and early retirement.

Insurance companies are handling increased general insurance business with fewer staff thanks to the new technology. However, many companies feel there is little scope for further staff reductions.

CONSTRUCTION CONTRACTS

Balfour Beatty wins City block

BY JOAN GRAY, CONSTRUCTION CORRESPONDENT

BALFOUR BEATTY has been awarded a £27m contract to build the Ropemaker Place office blocks which are Norwich Union's biggest single commercial property investment.

Ropemaker Place, which will have an investment value of about £100m when it is completed in 1987, is being built on the island site of British Petroleum's old headquarters, Britannia House, at 25/30 Ropemaker Street on the northern edge of the City of London.

Balfour Beatty was awarded the contract by London and Metropolitan Estates, which is jointly owned by Balfour Beatty and London and Edinburgh Trust.

The development consists of two linked office blocks of 133,000 square feet and 122,000 square feet, designed to give a "prestigious and high-profile identity" to a finance company.

The buildings will have light grey polyester-coated aluminium cladding, echoing the grey and burgundy Ropemaker Place livery which will be repeated throughout, including the marble floors.

They will also have roof terraces on the fourth to tenth floors, an entrance hall with a water garden, and scenic lifts going up the outside of the building.

Other Norwich Union-funded projects built by Balfour Beatty include the £14.5m Trinity Centre over the main railway at Aberdeen, a £2m contract to build the Spring Gardens offices in Manchester, and the £3.6m Quadrant centre in Redhill.

● Balfour Beatty has also won its eighth contract from McDonalds Restaurants for £736,000, to refurbish premises in Lord Street, Liverpool into a hamburger bar.

The contract, won in competitive tender, is due to be completed in 20 weeks. According to Balfour Beatty, speed is a vital factor in winning work from McDonalds. The contracts all involve gutting and refitting buildings and working at high speed, planning and co-ordinating subcontractors from tiling to carpentry to installing kitchen equipment, to complete a new restaurant within weeks.

Refurbishment keeps Mansell busy

R. MANSELL, Croydon, has been awarded a variety of contracts totalling nearly £7m for refurbishment, repair, maintenance and minor works. Largest is worth nearly £2.3m for the National Audit Office at Victoria Air Terminal, Buckingham Palace Road, SW1, involving fitting out and finishing to 200,000 sq ft of office space, 35 toilets and six staircases. Office work includes fitting partitions, suspended ceilings, secondary glazing and carpeting. Work is due for completion in November.

At Clapham College, Mallwood Road, SW12, for the trustees of the Roman Catholic Diocese of Southwark, a £1.12m contract has been won for internal alterations and building an escape staircase and single-storey extension. Completion is due in December 1986. At Brecknock Estate, Brecknock Road, N7, conversion of 34 flats into 28 maisonettes, installation of a lift shaft and landscaping under a contract worth nearly £1m for the London Borough of Islington. Work starts on June 17 and is due to complete 56 weeks later. Alterations and enlargement worth £260,000 to La Tante Claire restaurant at 68 Royal Hospital Road, SW3. Work is due to complete on August 30.

Forming a safe deposit complex at basement and ground floor level in a contract worth £270,000 at 571/575 Finchley Road, Hampstead, NW3 for Hampstead Safe Deposit Vaults. Work is due to finish in December. At Peldon Court, Sheen Road, Richmond, £230,000 external repairs and redecorations for the London Borough of Richmond-upon-Thames. For the London Borough of Hounslow, £240,000 roof replacement at Harnage House, Clayponds Lane, Brentford, Middlesex. A £275,000 office refurbishment for Lowndes Lambert Group at 53 Eastcheap, EC3 and £120,000 alterations to Lloyds Bank at Leadenhall Street, EC3, completes the list. In addition, orders worth over £1m have been received for Mansell building maintenance and minor works division.

R. McAlpine starts Butlers Wharf project

Following signing a £36m contract in 1984 with Butlers Wharf, SIR ROBERT McALPINE & SONS has started on a project which will revitalise and redevelop the Butlers Wharf area of London Docklands, adjacent to Tower Bridge.

First phase of the development, valued at £3.85m is underway. This covers the conversion of an existing eight-storey warehouse into 66 apartments due for completion in September 1986.

Majority of the apartments, ranging in size from studios to three bedroom/two bathroom penthouses, will overlook St Saviours Dock.

The existing building is of concrete-cased steel frame construction, which will be re-clad with a brick facade with balconies, to provide 8100 sq metres gross of residential area, together with car parking for about 70 vehicles, access and service areas and a roof garden.

*

An access road to Salalah village, Abu Dhabi, is to be built by one of George Wimpey's associated companies, AL WIMPEY ROAD AND CONSTRUCTION (ABU DHABI), for the Al Ain Municipality on behalf of the Government of Abu Dhabi. To be completed by October, the company will build about 3½ miles of two-lane road and associated parking areas plus a reinforced-concrete culvert. Contract value is over £2m.

*

CLUGSTON CONSTRUCTION has awarded contracts totalling £2.1m. These include road and bridgeworks at Swinton for Rotherham Metropolitan Council, concrete repairs to the A1 at Tuxford for the Department of Transport, and reconstruction of a road bridge in Peterborough which forms part of British Railways East Coast railway electrification project.

New weights and measures laboratory

A new building for the National Weights and Measures Laboratory is to be built on part of the National Physical Laboratory site in Teddington. Awarded to JOHN MOWLEM AND CO. the contract is worth about £3.3m. Completion is expected in September 1986. The work is for the Property Services Agency of the DoE. The National Weights and Measures Laboratory tests for accuracy the standards of length, mass and capacity held by the 93 local authority trading standards departments. It is the reference laboratory for the measurement by volume on which all the quantities of beer, spirits, petrol and oil are based. The laboratory currently occupies premises in London, but these have become inadequate for its present needs.

*

A £2m resurfacing contract at A & AEE, Boscombe Down, has been awarded to R. J. MAXWELL & SON, of Coleraine, N Ireland. Client is the Property Services Agency of the DOE, and contract period is from July 1 to September 30. Maxwell & Son is a wholly-owned subsidiary of the TBF Thompson (Garvagh) group. The contract is for resurfacing runway 06-24. Work will involve planing off an existing friction course, supplying and laying 40mm Marshall asphalt wearing course, applying and re-laying a 20mm friction course, and ancillary works.

Welsh trunk road will cost £14m

A £14.3m contract for construction of a dual carriageway to improve the A48 London to Fishguard trunk road near Carmarthen in South Wales has been awarded by the Welsh Office to the THYSSEN-TAYWOOD JOINT VENTURE, comprising Thyssen GB and Taylor Woodrow Construction. Work starts this month for completion in September 1986.

The contract calls for 8 miles of dual carriageway east of Carmarthen to bypass Cross Hands. The new road will connect an existing dual carriageway ending at Cwmgwili to the existing A48 near Llanddarog.

Included is a roundabout, two pedestrian subways, realignment of side and access roads, construction of two single-span road bridges, excavation and placing of more than 1.5m cu metres of material and sealing five abandoned mines.

*

TILBURY CONSTRUCTION has orders totalling over £2.8m. Largest is worth £1.3m and is for sewerage work for the London Borough of Bromley. Work has already begun on this job which is at Beckenham and is expected to last for two years. At Devonport, Tilbury has won a contract worth £351,000 at the naval base. This job should be completed in 26 weeks. The West Country Housing Association has awarded a £290 000 order for construction of 20 flats in two blocks at Bronshill Road, Torquay. Work will take 40 weeks, and is being funded by the WCHA. There are four contracts—worth a total of £600,000—from water authorities. Two of these come from Thames Water Authority and involve construction of a pumping station at Woodley Airfield and bank protection work on the River Lea at Stratford, East London. For the Southern Water Authority Tilbury is to carry out culvert work on the Par Brook flood relief scheme in Billingshurst, Sussex, and remedial work at the Slade Reservoir near Ilfracombe, Devon, is to be undertaken for the South West Water Authority.

*

ALLEN BUILDING, Wigan, has secured contracts worth more than £2m. These include a contract, worth over £1m, for the alteration, extension, and refurbishment of The Convent of Notre Dame at Parbold, and a replacement school and community centre at Bacup for Lancashire County Council valued at £680,000.

APPOINTMENTS

Forward Trust Group head

Mr Peter Nicholson has been appointed chairman and chief executive of FORWARD TRUST GROUP, a Midland Bank company. This follows the departure of Mr Ian Paterson, who becomes chief executive, Midland domestic division at Midland Bank. Mr Nicholson is a general manager with the international division of Midland Bank. Also joining the board of Forward Trust is Mr Ian Cotterill, formerly controller of finance and planning, who became director, finance. Mr Graham Picken, who remains regional director, southern region until November, is to become director, field operations, based in Birmingham. He will be responsible for marketing and operations.

★

Sir Murray Fox has been elected president of CITY AND METROPOLITAN BUILDING SOCIETY in succession to the late Mr Fred Cleary. Mr John Smethers, a director of the society, succeeds Sir Murray as chairman.

★

Mr Peter Edwards has been appointed distribution director by HONEYWELL INFORMATION SYSTEMS. He was previously head of information systems division at Rank Xerox.

★

THROUGH TRANSPORT MUTUAL SERVICES, London agents of the managers of the TT Club has appointed to its board: Mr Phillip Bennett, Mr Mark Holford, Mr Charles Mawdsley, Mr Paul Koronka, Mr John Strube and Mr Peter Swindells. With the exception of Mr Mawdsley and Mr Koronka, all the new directors work full time in TTMS.

★

R. A. EDWARDS & CO. (HOLDINGS), part of the Sturge Group, has appointed Mr D. M. W. Farley and Mr A. H. Greig as directors and Mr A. Johnston Brown as company secretary.
zhiorwardbwbfiCL¦h

★

HONGKONG BANK group has appointed Mr Edward Clifton-Brown as manager of a new private banking department to service customers of the Hongkong and Shanghai Banking Corporation and the British Bank of the Middle East in the UK. Mr David Clasper and Mr Peter Day have been appointed assistant managers.

★

Mr R. P. L. McMurtrie has resigned as chairman and as a director of ELBAR INDUSTRIAL and its subsidiary companies, and becomes a consultant to the company. Mr Peter Grant, a deputy chairman of Lazard Brothers and Co., has been elected a director and chairman of Elbar. Monsieur Etienne Allard has been elected executive deputy chairman and Mr Peter Timms managing director. Viscount Hood, Mr R. J. McNelle and Mr J. Berkeley Stewart have resigned from the board.

★

THE EQUITABLE LIFE ASSURANCE SOCIETY intends to elect Professor Roland Smith as president in May, 1986, when the present president, Mr David L. Murison, is due to retire. Until then Professor Smith will be a vice-president. Professor Smith has been a director of The Equitable Life since 1976. Sir Ashley Ponsonby, who has been a vice-president of the society for a number of years, has stepped down from this post but will remain on the board until his retirement in May, 1986.

★

Mr Charles Tidbury, a director of Barclays Bank, has been appointed a non-executive director of MERCANTILE CREDIT. He was formerly chairman of Whitbread and Co.

★

CHAMBERS AND FARGUS has appointed Mr Charles L. Daly as a non-executive director, and Mr C. Conrad Dobson becomes financial director.

★

Following the retirement of Mr Alwyne Mortimer, Mr Robert Wade has been appointed chairman and managing director of LEEDS GROUP. Mr Wade has been a director since 1963 and managing director since 1979.

★

Mr Nigel Beevor and Mr Michael Legge have been appointed assistant directors in the corporate finance department of CHARTERHOUSE JAPHET.

★

Mr Alan Gregory, chairman, BP Oil, and Sir David Wolfson, chairman, Steinberg Group, have been appointed non-executive directors of STEWART WRIGHTSON HOLDINGS, and Mr George Jones, managing director of group subsidiary Stewart Wrightson (Surety & Specie), an executive director.

★

Mr Peter Nelkin, currently finance director of GROSVENOR SQUARE PROPERTIES GROUP, has been appointed joint managing director with the chairman, Mr Paul Marber.

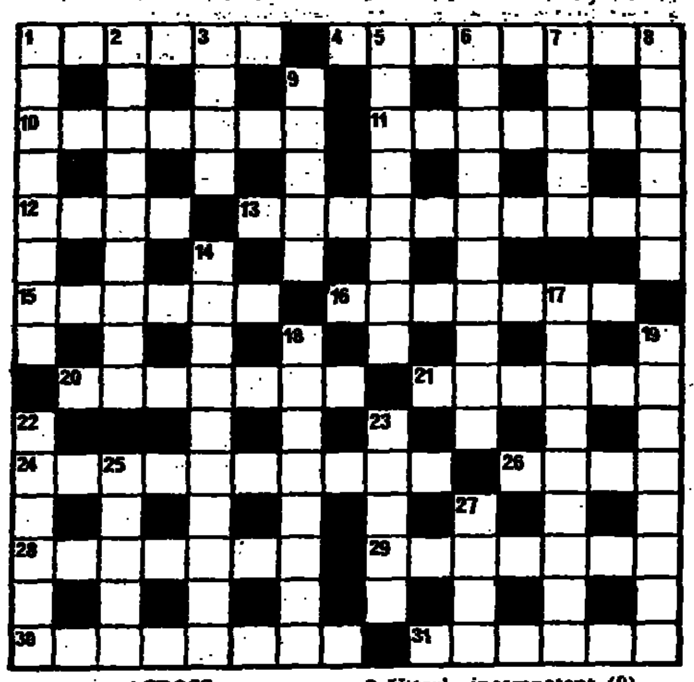
★

CAPEL-CURE MYERS, stockbrokers, has appointed Mr Robert Gale as a director of the institutional division, to enlarge the scope of the gilt edged department.

★

ARROW CHEMICALS, Swadlincote, has appointed Mr Tony Shaw to the board as marketing director.

F.T. CROSSWORD PUZZLE No. 5,733



ACROSS

1 Such a word usually is (6)
4 Tommy's postscript disjointed possibly indicates illness (8)
10 Easily pulverised, using a bar file perhaps (7)
11 Put in charge at the lemonade factory? (7)
12 Gives us directions for Customs? (4)
13 Looking for scraps? (10)
15 Jabber and annoy (6)
16 Binds books (7)
20 Aims to get a ship round an awkward pier (7)
21 Fights for food left over (6)
24 Put on the rack and extract information? (4, 3, 3)
26 We hold a note for payment (4)
28 She accused her stepson—had rape taken place? (7)
29 Extremely important stations (7)
30 Where motorists go to practice skids? (4-4)
31 Old port for a painter (6)

DOWN

1 A loud and voluble description of a very rich society (8)
2 Utterly incompetent (9)
3 They're not excavated but dug only for fun (4)
5 New reign any desire (8)
6 The essence of unpredictability (4, 6)
7 Open-air party is best (5)
8 We take pains to please him (6)
9 Information given us in class (5)
14 There's nothing wrong with a closed shop in the monastery (3, 2, 5)
17 Issue half of them before a race (9)
18 Made rare concoction of sugar (8)
19 In a way it repays harshness (8)
22 A small department's skilled personnel (6)
23 Jaunt for a group of administrators (5)
25 You can count on them (5)
27 Newly born in Czechoslovakia (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Current
Fine Art and Antiques Fair (01-385 1200) (until June 5) Olympia
International Freight Industry Conference and Exhibition—WORLDFREIGHT (until June 6) (01-642 7683) Met. Exhibition Hall, Brighton

June 4-6
Business Computer Show (01-643 8040) Earls Court

June 4-6
Software Show (01-643 8040) Earls Court

June 5-9
Bristol Boat Show (0272 299521) Bristol Exhibition Centre

June 9-13
Shop Equipment and Display Exhibition — SHOPEX INTERNATIONAL (01-868 4499) Olympia

June 10-14
International Mining Exhibition —MINING (0923 778311) NEC, Birmingham

June 11-15
Mexican Exhibition and Conference (01-839 6586) MEXPO 85 Novotel, W6

June 12-14
The Solicitors' and Legal Office Exhibition and Conference (01-965 3003) Barbican Centre, EC2

June 18-19
Royal Highland Show (031-333 2444) Ingliston Showgrnd, Edinburgh

July 1-3
Insurance Information Exchange—exhibition and seminar (01-831 6909) City Conference Centre, EC3

July 9-11
National Education, Training and Development Exhibition and Conference (01-637 2400) NEC, Birmingham

July 11-20
World Wine Fair (01-222 9341) Exhibition Centre, Bristol

July 14-18
Gift Trade Fair (0283 867153) Exhibition Centre, Harrogate

July 16-18
Drives, Motors, Controls Exhibition (0799 26699) Olympia

OVERSEAS TRADE FAIRS

Current
International Air Show (01-439 3964) (until June 9) Paris

June 3-6
ROBOTS 9 Conference and Exposition (U.S. (313) 271-7800) Detroit

June 10-15
International Energy Conservation Exhibition and Conference (01-968 4567) Shanghai

June 13-16
International Computer Show for Office, Home, Hobby (01-930 7251) Cologne

June 18-22
International Exhibition of Machinery and Materials for Packaging—ASIAPACK (01-653 1158) Singapore

June 25-28
Info/Hong Kong Exhibition (01 891 5051) Hong Kong

July 15-20
Total Energy Exhibition (01-868 4567) Guangzhou

July 17-25
International Cultivation, Harvesting and Packaging in Viticulture, Horticulture and Veg Growing Exhibition (0889 252131) Kishinev

BUSINESS CONFERENCES

June 3-4
FT Conference: Foreign exchange risk in 1985 (01-621 1355) Hotel Inter Continental, W1

June 10-11
FT Conference: The Sixth Paper and Pulp Conference (01-621 1355) Hotel Inter Continental, W1

June 11-12
EDANA: Italian nonwovens symposium (Brussels 02-734 93.10) Milan

June 11-12
FT Conference: World Gold in 1985 (01-621 1355) Lugano

June 12
Oyez: Supply, use and carriage of goods—the implications of the new dangerous substances regulations (01-236 4080) London

June 14
Management Forum: The future of the pharmaceutical market in Great Britain (0483 570099) Cafe Royal, W1

June 17-18
Economist Conference Unit: Multinational corporations (01-839 7000) Park Lane Hotel, W1

June 18
B. J. O'Connor International: Japanese materials management (0932 51334) Holiday Inn, Heathrow

June 18-19
FT Conference: World Electronics—Global Market Approach (01-621 1355) Hotel Inter Continental, W1

June 19-20
Offshore Conferences and Exhibition: Offshore tubular joints 1985 (01-549 5831) Heathrow Penta Hotel

June 19
Business Research International: Interest rate options (01-637 4383) Park Lane Hotel, W1

June 24-25
CommEd: Telecommunications—the European Future (01-733 3456) Dorchester Hotel, W1

June 26
Financial and Business Exhibitions: Strategies for innovation (01-493 8000) Tara Hotel, W8

June 28
The Institute for Fiscal Studies: Corporation tax (01-636 3784) St. Ermins Hotel, SW1

July 2
Royal Institute of International Affairs: European Initiatives in Information Technology (01-930 2233) Chatham House

July 3
London Chamber of Commerce and Industry: "Venezuela—an oil economy. Prospects for British suppliers" (01-248 4444) 69 Cannon Street, EC4

July 8-10
Frost and Sullivan: Development of structured software (01-486 0334) Cumberland Hotel, London

July 9
The Industrial Society: Employing casual, part-time and temporary workers—implications of recent case law (01-839 4300) London

July 9-10
FT Conference: Oil industry developments (01-621 1355) London

July 20
Commonwealth Institute: The Commonwealth and the Law of the Sea (01-603 4535) London

July 22-31
Kluwer Conferences: Marketing insurance (01-568 6441) Cookham, Berks

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

CONTINUED OVERLEAF

AUTHORISED UNIT TRUSTS & INSURANCES

Pearl Trust Managers Ltd. (a)(g)(z)

Perpetual Unit Trust Mngmt. (a) (z)

Prolific Unit Trusts

Providence Capital Fd. Mgrs. Ltd.

Prudential Unit Trust Mngrs Ltd. (a) (b) (c)

Quilter Management Co. Ltd.

Reed Stenhouse Inv Services Ltd

Reliance Unit Mgrs. Ltd.

Ridgefield Management Ltd.

N.M. Rothschild Asset Management

Rowan Unit Trust Mngt. (a)

Royal Life Fd. Mgmt. Ltd.

Royal London Unit Tst Mgrs Ltd

Royal Trust Can. Fd. Mgt. Ltd.

SKG Management Limited

Save & Prosper Group

Schroder Unit Trust Managers Ltd.

Scottish Equitable Fund Mgrs. Ltd.

Scottish Life Investments

Scottish Mutual Investment Managers Ltd.

Scottish Provident Inv. Mgt. Ltd.

Scottish Unit Managers

Scottish Widows' Fund Management

Standard Life Trust Mngmt. Ltd.

Stewart Unit Tst. Managers Ltd.(a)

Sun Alliance Fund Management Ltd.

Sun Life Trust Mngt. Ltd.

Swiss Life Pen. Tst. Man. Co. Ltd.(a)(c)

TSB Unit Trusts (b) (c) (y)

3i & Target Fund Mgrs Ltd

Target Trust Mngrs. Ltd. (a)(g)

Temple Bar Unit Trust Mgrs Ltd

Touche, Remnant Unit Trust Mngt. Ltd.

Trades Union Unit Trust Managers

Transatlantic and Gen. Secs. (c) (y)

Tyndall Managers Ltd.(a)(b)(c)

Unit Trust Account & Mgmt. Ltd.

Vanguard Trust Managers Ltd.

Wardley Unit Trust Managers Ltd (a)

Waverley Asset Management Ltd (a) (c) (g)

Whittingdale Unit Trust Managers

Wright Seligman Fund Managers Ltd.

INSURANCES

AA Friendly Society

Abbey Life Assurance Co. Ltd. (z)

Aetna Montagu Life Insurance Co. Ltd.

Albany Life Assurance Co. Ltd.(z)

Ambassador Life Ass. Co. Ltd.

Barclays Life Assur. Co. Ltd (z)

Black Horse Life Ass. Co. Ltd.

British National Life Assurance Co. Ltd

Canada Life Group

Cannon Assurance Ltd.

Chieftain Assurance Funds

City of Edinburgh Life Assurance

City of Westminster Assurance

Clerical Medical/Fidelity International

Clerical Medical Managed Funds Ltd.

Colonial Mutual Group

Commercial Union Group

Confederation Life Insurance Co.

Continental Life Insurance PLC

Cornhill Insurance PLC

Credit & Commerce Life Ass. Ltd.

Criterion Assurance Group

Crown Financial Management Ltd.

Crusader Insurance PLC

Eagle Star Insur./Midland Assur.

Equitable Life Assurance Society(z)

Equity & Law

Family Assurance Society

Federation Mutual Insurance Ltd.

Framlington Life Insurance Ltd.

Friends' Provident Life Office

G.T. Management Ltd.

General Accident Linked Life Assurance(z)

Assicurazioni GENERALI S.p.A.

General Portfolio Life Ins. PLC

Gresham Unit Assurance Ltd.

Growth & Sec. Life Ass. Soc. Ltd.

Guardian Royal Exchange

Hambro Life Assurance P.L.C.

Hearts of Oak Benefit Society

Henderson Administration

Hill Samuel Life Assur. Ltd.

Imperial Life Ass. Co. of Canada

Imperial Life (UK) Ltd.

Irish Life Assurance Co. PLC.

The LAS Group

Langham Life Assurance Co. Ltd.

Legal & General (Unit Assur.) Ltd.

Legal & General (U.A.)—Contd.

Legal & General Prop. Fd. Mgrs. Ltd.

Liberty Life Assurance Co Ltd

Life Assur. Co. of Pennsylvania

Lloyds Life Assurance

London & Manchester Group

London Indemnity & Gnl. Ins. Co. Ltd

London Life

London A'dean & Nthn. Mtl. Assur. Ltd.

M & G Group

MGM Assurance

Manufacturers Life Insurance Co (UK)

Merchant Investors Assurance

Municipal Life Assurance Ltd

NEL Pensions Ltd.

National Mutual Life

National Mutual of Australasia

National Provident Institution

New Zealand Insurance PLC

Norwich Union Insurance Group

Pearl Assurance (Unit Funds) Ltd.

Phoenix Assurance Co. Ltd.

Pioneer Mutual Insurance Co. Ltd.

Planned Savings Management Ltd.

Premium Life Assurance Co. Ltd.

Property Equity & Life Ass. Co.

Property Growth Assur. Co. Ltd.

Property Growth Pensions & Annuities Ltd.

Providence Capital Life Assc. Co. Ltd.

Provident Life Assoc of London Ltd

Provident Mutual Life Assc. Assn.

Provincial Life Assurance Co. Ltd.

Prudential Assurance Co.

Prudential Pensions Limited

Reliance Mutual

Royal Life (Unit Linked Assurance) Ltd

Save & Prosper Group

Schroder Life Assurance Ltd.

Scottish Amicable Investments

INSURANCE, OVERSEAS & MONEY FUNDS

OFFSHORE AND OVERSEAS

World Fund S.A.
2 Boulevard Royal, Luxembourg

World Fund NAV	$11.10		..	—

World Wide Growth Management⊕
10a, Boulevard Royal, Luxembourg

Worldwide Gth Fd.	$12.63		+0.06	—

Inv. Adv.: M. & G. Inv. Mngt., Ltd., London.

Yamaichi Dynamic Mngt Co SA
10A Boulevard Royal, Luxembourg

Advanced Tech	$9.14		−0.05	—
Dynamic Gwth Fd.	$8.25		−0.05	—

Money Market Trust Funds

The Charities Deposit Fund
77 London Wall, London EC2N 1DB 01-588 1815

	Gross	Net	Gr Equiv CAR	Int Cr
Deposit	12.3	—	—	3-Mth

The Money Market Trust
63 Qn Victoria St, EC4N 4ST. 01-236 0952

	Gross	Net	Gr Equiv CAR	Int Cr
Call Fnd	12.63	9.44	14.01	6mth
7-day Fnd	12.83	9.59	14.24	6mth

Oppenheimer Money Management Ltd
66 Cannon St, EC4N 6AE. 01-236 1425

	Gross	Net	Gr Equiv CAR	Int Cr
Call Fnd	12.13	9.07	13.38	6-Mth
7-day Fund	12.34	9.22	13.60	6-Mth
Dollar	6.50	—	—	6-Mth
Money Mngt. Acc.	12.00	8.97	13.43	3-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Adam & Co. plc 22 Charlotte Sq, Edinburgh, EH2 4DF 031-225 8484				
Full Service Chq Acc.	12.25	8.75	13.09	Qtr
Aitken Hume 30 City Road, EC1Y 2AY. 01-638 6070				
Treasury Acc	12.50	9.34	14.03	Qtr
Mth. Int. Chq.	12.375	9.25	14.05	Mth
Bank of Scotland 38 Threadneedle St, EC2P 2EH. 01-628 8060				
Cheque Acc	12.05	9.00	13.40	Mth
Barclays Prime Account PO Box 125, Northampton 0604 252891				
High Int. Cheque	12.25	9.00	13.49	Qtr
Britannia Investment Services Ltd. 29 Finsbury Circus, EC2M 5QL. 01-588 2777				
Cater Allen	12.06	9.03	13.426	Mth
Charterhouse Japhet plc 1 Paternoster Row, EC4M 7DH. 01-248 3999				
Sterling	12.375	9.25	13.79	Mth
U.S. Dollar	7.50	7.50	7.76	Mth
German Marks	5.0	5.00	5.12	Mth
Swiss Francs	2.00	2.00	2.02	Mth
Japanese Yen	5.00	5.00	5.12	Mth
Citibank Savings St. Martins Hse, Hammersmith Grove, W6 0NY 01-748 9251				
Cheque Plus	—	10.00	14.83	Qtr
Co-operative Bank Cheque & Save 78-80 Cornhill EC3 01-626 6543.				
£500-£2,500	11.0	8.22	12.11	Qtr
£2,500 +	13.00	9.72	14.40	Qtr
Dartington & Co Ltd Dartington, Totnes, Devon TQ9 6JE. 0803 862271				
Money Mkt Acc.	12.25	9.16	13.81	Qtr
Edward Manson & Co Ltd 9 Henrietta Place W1M 9AG 01-631 3313				
Cheque Deposit Acc.	12.75	9.53	14.49	Mth
Henderson/Bank of Scotland 38 Threadneedle St EC2P 2EH 01-628 8060				
Money Mkt. Cheque Acc.	12.05	9.00	13.40	Mth
Lombard North Central PLC 17 Bruton St, W1A 3DH. 01-409 3434				
14-Day Notice	12.75	9.53	13.61	—
M & G/Kleinwort Benson 91-99 New London Rd, Chelmsford. 0245 51651				
H.I.C.A.	12.26	9.16	13.06	Daily
Midland Bank plc PO Box 2, Sheffield. 0742 20999 Ext 8738				
High Int Chq.	12.04	9.00	13.49	Qtr
Provincial Trust (formerly Choularton) 30 Ashley Rd, Altrincham, Cheshire, WA1 2DW 061-928 9012				
Cheque Acc	12.80	9.57	14.56	Mth
Royal Bank of Scotland plc 24 Lombard St, London EC3V 9BA 031-557 0201				
Premium Account	12.25	9.15	13.73	Qtr
Save & Prosper/Robert Fleming 28 Western Rd, Romford RM1 3LB. 0708 66966				
H.I.B.A.	12.05	9.00	13.47	Daily
Tyndall & Co 29-33 Princess Victoria St, Bristol. 0272 732241				
Demand Acc.	12.30	9.19	13.79	Qtr
Money Acc.	12.20	9.125	13.68	Qtr
J. Henry Schroder Wagg & Co Ltd Enterprise House, Portsmouth 0705 827733				
Special Acc.	12.10	9.04	13.70	Mth
Over £10,000	12.35	9.23	14.03	Mth
Western Trust & Savings Limited The Moneycentre, Plymouth PL 1SE 0752 24141				
High Int Chq Acc.	12.69	9.48		

NOTES—Gross rate to those exempt from composite rate of tax. Net: actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited.

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. # Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ⊕ Yield column shows annualised rates of NAV increase.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
22 May	22 Nov	Exch. 12¼pc 1985	100	15.4	12.25	12.09
25 Aug	25 Feb	Exch. 11¼pc '86	99¾	21.1	11.76	11.82
11Oct	11Apr	Treas. 10pcCnv 1986	98⅝	25.3	10.14	11.66
19 Nov	19 May	Treas 3pc 1986	94	12.4	3.18	9.32
19 Nov	19 May	Exch. 10½pc Cv '86	99	12.4	10.61	11.60
12Dec	12Jun	Treas 12pc 1986	100⅜	7.5	11.96	11.62
10 Jan	10 Jul	Treas 8¾pc 1984-86‡‡	96	4.12	8.77	11.53
29 Apr	29 Oct	Exch. 14pc 1986	102	25.3	13.60	11.62
21 May	21 Nov	Exch. 2½pc 1986	92¼	15.4	2.71	8.20
22Jul	22Jan	Exch. 13¼pc 1987	102¾	17.12	12.94	11.57
10 Aug	10 Feb	Treas 10¼pcCv '87	98¼	4.1	10.45	11.46
24Aug	24Feb	Exch 2½pc 1987	90¼	18.1	2.77	8.86
6Oct	6Apr	Exch. 10½pc 1987	98	1.3	10.67	11.42
1 Nov	1 May	Funding 6½pc '85-87‡‡	93	25.3	6.98	10.51
12Dec	12Jne	Treas. 10pc 1987	97¼xd	23.5	10.27	11.50
14Jan	14Jly	Treas 3pc 1987	89	10.12	3.36	8.67
3May	3Nov	Treas. 12pc 1987	101¼	27.3	11.87	11.41
26 Jul	26 Jan	Treas 7¾pc 1985-88‡‡	93¼	20.12	8.32	10.78
10Nov	10May	Exch 10½pc '88	98	3.4	10.71	11.30
14Dec	14Jne	Treas 9¾pc Cv '88	96	8.5	10.16	11.35
1Jan	1Jul	Transport 3pc '78-88	85¾xd	28.5	3.50	8.41
25 Apr	25 Oct	Treas. 9½pc '88	94	19.3	10.03	11.41
22 Aug	22 Feb	Treas 11½pc 1989	100	16.1	11.45	11.33
18 Oct	18 Apr	Treas 9½pc Cnv. '89	94	12.3	10.07	11.33
15Nov	15May	Treas 3pc 1989	79	—	3.78	9.34
14Dec	14Jun	Treas 10½pc 1989	97¼xd	23.5	10.80	11.38
1Feb	1Aug	Exch.10pc 1989	95	27.12	10.48	11.40
29 Mar	29 Sep	Exch 11pc 1989	98¾	20.2	11.14	11.34
15 Apr	15 Oct	Treas 5pc 1986-89	83⅝	11.3	5.98	9.68
15 Jul	15 Jan	Treas 13pc 1990‡‡	106	10.12	12.23	11.20
12 Feb	12 Aug	Exch 11pc 1990‡‡	98	—	11.15	11.34
22 Sep	22 Mar	Exch. 12½pc 1990	104	13.2	11.94	11.45

Five to Fifteen Years

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
15 Dec	15 Jun	Treas 8¼pc 1987-90‡‡	89¾xd	9.5	9.20	10.99
25 Apr	25 Oct	Treas. 10pcCv 1990	95¾	19.3	10.60	11.43
10Ja	10Jan	Treas 11¾pc 1991	105¼	4.12	11.62	11.46
5Oct	5Apr	Funding 5¾pc '87-91‡‡	84¼	1.3	6.91	9.57
25Apr	25Oct	Exch. 11pc 1991	99	19.3	11.91	11.36
22Jly	22Jan	Treas 12¾pc 1992‡‡	110⅞	17.12	12.00	11.37
21Aug	21Feb	Treas 10pc 1992	96⅝	15.1	10.66	11.32
7 Nov	7 May	Treas 10½pc Cv 1992‡‡	97¼	1.4	10.91	11.27
25 Feb	25 Aug	Exch. 12¼pc '92	107¼	21.1	11.79	11.42
22Mar	22Sep	Exch 13½pc 1992	112¼	13.2	12.31	11.48
14Jan	14Jul	Treas 12½pc 1993‡‡	110⅞	10.12	11.80	11.33
15Mar	15Sep	Funding 6pc 1993‡‡	80¼	6.2	7.60	9.75
23May	23Nov	Treas 13¾pc 1993‡‡	113	16.4	12.23	11.39
1 Sept	1 Mar	Treas 14½pc 1994‡‡	121¼	23.1	12.36	11.30
27Oct	27Apr	Exch 13½pc 1994	112¼	21.3	12.17	11.46
22Feb	22Aug	Exch. 12½pc 1994	109⅞	16.1	11.79	11.42
17May	17Nov	Treas 9pc 1994‡‡	88¼	10.4	10.23	11.05
25Jul	25Jan	Treas 12pc 1995	107½	19.12	11.64	11.43
1Nov	1May	Gas 3pc '90-95	70¼	25.3	4.27	7.25
21Jan	21Jul	Exch. 10¼pc 1995	97½	17.12	10.95	11.30
15May	15Nov	Treas 12¾pc 1995‡‡	109¾	9.4	11.77	11.31
22Jly	22Jan	Treas. 14pc '96	128¼	17.12	12.16	11.48
15Sep	15Mar	Treas 9pc 1992-96‡‡	89¾	6.2	10.32	11.02
3Nov	3May	Treas 15¼pc 1996‡‡	124¼	27.3	12.38	11.44
15Nov	15May	Exch 13¼pc 1996‡‡	113¼	9.4	11.80	11.24
1Apr	1Oct	Redemption 3pc 1986-96	76¼	25.2	3.96	5.98
22Jul	22Jan	Treas 13¼pc 1997‡‡	117⅞	17.12	11.77	11.24
21Aug	21Feb	Exch 10½pc 1997	98¼	15.1	10.99	11.13
1Mar	1Sep	Treas 8¾pc 1997‡‡	87¼	23.1	10.31	10.97
27Apr	27Oct	Exch. 15pc 1997	124¼	21.3	12.23	11.49
19 Jul	19 Jan	Exch. 9¾pc 1998	95	13.12	10.68	11.02
19Jul	19Jan	Exch. 9¾pc 1998 'A'	95¾	—	10.69	11.02
1Nov	1May	Treas 6¾pc 1995-98‡‡	73¼	25.3	9.30	10.68

AMERICANS—Cont.

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
F.My.Au.N.	Amer Medical Int $1	19	29.3	60c	—	2.5
May Au No Fb	Amer. Nat. Res. $1	51¼	10.10	$1.41	—	2.1
Ap Jy Oc Ja	American T. & T. $1	18¼	26.3	$1.20	—	5.2
My Au N F	Ameritech $1	69⅞	—	$6.00	—	6.7
Mar Jn S D	Amfac	20¼	16.11	$1.44	—	5.4
—	♥AnaTech	40¼p	—	—	—	—
Fb My Au N	BankAmerica $1⅝	16⅞	7.5	$1.52	—	7.1
Ap Jly Oc Jan	Bankers N.Y. $10	55¼xd	28.3	$2.70	—	3.8
Ja Ap Jy Oc	BASIX Corp.	923p	18.3	13c	—	—
My Au N Fb	Bell Atlantic $1	69⅞	27.3	$6.80	—	7.6
Fb My Au N	Bellsouth $1	31¼	26.3	$2.60	—	6.6
Mar Jun S D	♥Beth Steel $8	13	4.11	40c	—	2.4
Oc Ja Ap Jy	Bowater Inc.	17¾	6.3	72c	—	3.2
Ja Ap Jly O	Brown'g-Fer. 16⅔c	37¼	11.3	$1.08	—	2.3
F My Au N	Brunswick Corpn.‖	28¼	22.4	$1.00	—	2.8
—	♥Burroughs Computer	337p	—	—	—	—
Jan Ap Jly O	CPC Intnl. 25c	34¼xd	25.6	$2.20	—	5.1
Mr Ju Se De	CSX Corp U.S.$1.00	20⅞xd	21.5	$1.04	—	3.9
Mar. June S.D	CalFed Inc $1.00	16½xd	10.5	32c	—	1.5
Oc Ja Ap Jy	Campbell Soup 60c	57¼	3.4	$2.50	—	3.4
F My Au N	Caterpillar Tractor‖	27¼xd	17.4	50c	—	1.4
—	Cenergy Corp. 25c	746p	—	1c	—	0.1
Fb.My.Ag.Nv.	Chase M'hfn $12.5	46xd	25.4	$3.80	—	6.5
Ap Jy Oc Ja	Chemical New York	32¼	12.3	$2.36	—	5.8
Mar Jun S D	Chesebrough-Pond's $1	27xd	30.5	$1.92	—	5.6
Mar Jun S D	Chrysler $6¼	28¼	12.3	$1.00	—	2.7
My Au N F	Citicorp $4	36⅞	26.3	$2.26	—	4.8
—	CityFed Fin. Corp.	805p	—	Q40c	—	3.9
F My Au N	Colgate-P. $1	19¼	22.4	$1.28	—	5.2
Mr.Jn.Se.De.	Colt Inds. $1	48¼	12.3	$2.50	—	4.1
F May Au N	Cont Illinois Hldgs $1	49p	27.3	—	—	—
—	♥Corporate Data Scnce.	218p	—	—	—	—
Apr Jly O Ja	Crown Zell. $5	32¼	6.3	$1.00	—	2.4
—	Cullinet Sftwr $0.1	19¼	—	—	—	—
—	Damson Oil 40c	324p	—	—	—	—
Mar Jun S D	Dana Corp. $1	22xd	22.5	$1.28	—	4.6
—	Data General	27⅝	—	—	—	—
—	♥Denza-Lock Medicl	27½p	—	—	—	—
M J S D	Dun & Bradstreet $1	62⅞xd	15.5	$1.88	—	2.3
F My Au N	Eaton Corpn. 50c	42¼	1.5	$1.20	—	2.2
Mar Jun S D	♥Exxon‖	42	7.11	$3.40	—	6.3
MrJnSepDec	FPL Group $0.01	19	27.11	h$1.88	—	7.8
F May Ag N	Fin. Corpn Amer. 50c	520p	25.6	h34c	—	5.1
Jan Apr Jly O	First Chicago $5	19¾	26.2	$1.32	—	5.2
Jan Apr Jly O	Fluor Corpn. 62½c	13¼	22.3	40c	—	2.3
Mar Jun S D	Ford Motor $2	34¼	26.4	$2.40	—	5.5
Mar Jun S D	GATX 62½c	22⅝	27.2	$1.20	—	4.2
April Oct	Gen. Elect. $1¼	47⅞	1.3	$2.20	—	3.6
Jn Sep Dc Mr	Gen. Foods Corp $1	54¼xd	15.5	$2.48	—	3.6
Mar Jun S D	Gillette $1	47	26.4	$2.44	—	4.1
—	Gt. Am First Svgs Bk $1	14½	—	40c	—	2.2
Fe.My.Au.No.	Gt. Western Fin. $1	21½	—	88c	—	3.2
Ja No Au My	Hasbro Bradley $0.50	29	23.4	12c	—	0.3
—	Home Federal $0.01	19¼	—	—	—	—
Mar Jun S D	Honeywell $1.50	47½xd	28.5	$1.90	—	3.1
No Au Ap Ja	Hospital Corp Am $1	33¼xd	27.3	50c	—	1.2
Mr Ju Se Dc	Houston Inds Inc.	21¼xd	10.5	$2.48	—	8.9
Apr.Jy.Oc.Jan	Houston Nat.Gas $1	53¼	13.3	$2.0	—	2.9
Mar Jun S D	IBM Corpn $1.25	100¼	28.4	$4.40	—	3.4
Ap Jy Oc Ja	IC Industries	26¼	25.3	$1.44	—	4.3
Ja Ap Jy Oc	ITT Corpn. $1	25⅝xd	7.5	$1.00	—	3.1
—	Imatron Inc	147p	—	—	—	—
Mar Jun S D	Ingersoll-Rand $2	38⅝xd	10.5	$2.60	—	5.3
Fb Ap Ag Nv	Insilco $1	14½	3.4	$1.00	—	5.4
Mar Jun S D	IU Intnl. $1.15	12⅞xd	15.5	$1.15	—	7.3
Mar Jun S D	Lockheed Crpn. $1	40¼xd	22.5	60c	—	1.2
May Au N Mar	£20¼ul	20	31.5	$1.90	—	7.5
Mar Jun S D	Louisiana Land $0.15	23⅞xd	20.5	$1.00	—	3.3
Jan Ap Jly Oc	Lowe's 50c	23	9.4	h34½c	—	1.2
Jan Ap Jly Oc	Manuf. Hanover $7½	30	29.3	$3.20	—	8.4
Mr Ju Se De	Martin Marietta $1.00	45½	6.3	$1.34	—	2.3
Feb My Au N	Merrill Lynch $1	25xd	15.2	80c	—	2.5
—	♥Microcomputer Mem.	58p	—	—	—	—
Ja Apr Jul Oct	MidCon Corp‖	41xd	14.3	$2.36	—	4.5
Jan Ap Jly O	Morgan (JP) $2.5	39¾	20.3	h$2.20	—	12.0
F May Au N	NYNEX $1	68¼	26.3	$6.00	—	1.0
Ja Ap Jy Oct	PHH	24¼	9.4	88c	—	5.5
Ap Jy Oc Ja	Pacific Gas & Elec $5	15½	12.3	$1.72	—	8.7
Feb My Au N	Pacific Telesis $0.10	58	12.3	$5.40	—	7.3
Fe My Au No	Pall Corp. 25c	26¼	—	40c	—	1.2
Mar Jun S D	Pennzoil 83⅓c	39⅞xd	28.5	$2.20	—	4.3
F Apr Au N	Pillsbury‖	41⅞	26.4	$1.40	—	2.6
Jly Oc Jan Apr	Quaker Oats $5	38¼	20.3	h$1.24	—	2.5
Jan Apr Jly O	Rep NY Corpn $5	35½	12.3	$1.60	—	3.5
F May Au N	Rexnord $5	11¼	14.5	44c	—	3.1
Mar Jun S D	Rockwell Intl. $1	28¼xd	8.5	$1.00	—	2.7
—	Rohr Inds Inc $1	39¾	—	—	—	—
Oc Ja Ap Jly	Sara Lee $1⅓	32¼xd	29.5	$1.30	—	3.2
Mr Ja Se De	Saul (B. F.) $1	14¾xd	9.4	20c	—	1.1
De Mr Ja Sp	Scovill $6.25	33	9.8	$1.52	—	3.6

INDUSTRIALS—Continued

INSURANCES

LEISURE

LEISURE—Continued

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Cont.

Finance, Land, etc

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

MINES—Continued

Finance

Australians

Tins

Miscellaneous

—		♥Centennial Min'ls.	147	26.3	—	—	—
—		♥Colby Res Corp	80	—	—	—	—
Aug.	Feb.	Cons. Murch. 10c	450	14.1	†Q100c	1.4	10.8
—		‡Ennex Inc. Ir10p	32	—	—	—	—
Sept	Feb	Hampton Areas 10p	187	24.12	3.75	2.1	2.7
—		♥Highwood Res	160	—	—	—	—
May	Aug	Homestake Mining $1	£19¼xd	22.5	Q20c	—	1.0
—		♥McFinley Red Lake	230	—	—	—	—
—		♥Musto Explorations	255	—	—	—	—
—		♥New Sabena Res C$1	40	—	—	—	—
October		Northgate C$1	290	9.77	—	—	—
Jan.	July	RTZ	590xd	13.5	20.0	2.7	4.8
Jan	July	Do. 9½pcLn '95-2000	£129½xd	13.5	Q9½%	14.0	†7.6
—		♥Tara Expln $1	£12¼	—	—	—	—

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ‡ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Tax free. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Tender price. F Dividend and yield based on prospectus or other official estimates for 1984-85. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1984. K Figures based on prospectus or official estimates for 1984. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency

Albany Inv 20p	100	....	Arnott	275xd	....
Craig & Rose £1	£9	....	CPI Hldgs.	50	....
Finlay Pkg. 5p	61xd	....	Carroll Inds.	122	−2
Higsons Brew	225	....	Dublin Gas	53	..
Holt (Jos) 25p	740xd	....	Hall (R. & H.)	55	....
IoM Stm. £1	90	....	Helton Hldgs.	20	....
IRISH			Irish Ropes	43	....
Fund 11¼% 1988	£96½	....	Jacob (W. & R.)	80	....
Nat. 9¾% 84/89	£90¾	+⅛	Unidare	80	.
Fin. 13% 97/02	£100¾	+1			

OPTIONS — 3-month call rates

Industrials	p				
Allied-Lyons	16	GKN	17	Turner Newall	10
BAT	52	Hanson Tst.	17½	Unilever	85
BOC Grp.	25	Hawker Sidd	38	Vickers	19
BSR	16	Hse of Fraser	30	**Property**	
BTR	52	ICI	60	Brit Land	12
Babcock	14	'Imps'	18	Cap Counties	18
Barclays	48	Jaguar	28	Land Secs	25
Beecham	32	Ladbroke	24	MEPC	28
Blue Circle	45	Legal & Gen	50	Peachey	22
Boots	15	Lex Service	28	Samuel Props	14
Bowaters	20	Lloyds Bank	45	**Oils**	
Brit Aerospace	33	Lucas Inds	25		
Brit. Telecom	11	Marks & Spcr	11	Brit Oil & Min	4
Brown (J.)	3	Midland Bk	30	Brit Petroleum	42
Burton Ord	39	NEI	8	Burmah Oil	28
Cadburys	14	Nat West Bk	60	Charterhall	6
Comm Union	19	P & O Dfd	36	Premier	5
Courtaulds	12½	Plessey	17	Shell	60
Debenhams	17½	Polly Peck	26	Tricentrol	18
Distillers	28	Racal Elect	18	Ultramar	19
Dunlop	6	RHM	11	**Mines**	
FNFC	8½	Rank Org Ord.	32		
Gen Accident	45	Reed Intnl	58	Charter Cons	18
Gen Electric	17	Sears	8	Cons Gold	44
Glaxo	85	TI	20	Lonrho	14
Grand Met	25	Tesco	20	Rio T Zinc	56
GUS 'A'	60	Thorn EMI	35		
Guardian	60	Trust Houses	13		

A selection of Options traded is given on the London Stock Exchange Report page.

"Recent Issues" and "Rights" Page 16

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Granville & Co. Limited

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Over-the-Counter Market

Capitalisation £000's	Company	Price	Change on week	Gross div.(p)	Yield %	P/E Actual	P/E Fully taxed
4,960	Ass. Brit. Ind. Ord.	146	—	6.4	4.3	8.1	9.8
—	Ass. Brit. Ind. CULS	150	—	10.0	6.6	—	—
3,098	Airsprung Group	53	+1	6.4	12.1	5.8	7.0
925	Armitage and Rhodes	37	+1	3.9	7.8	4.6	7.7
47,224	Bardon Hill	151	+1	3.4	2.3	15.2	25.3
3,080	Bray Technologies	56	-1	3.9	7.0	5.8	7.9
564	CCL Ordinary	161	-2	12.0	7.5	3.9	3.7
1,375	CCL 11pc Conv. Pref.	110	—	15.7	14.3	—	—
6,689	Carborundum Ord.	115	—	4.9	4.3	5.7	8.9
616	Carborundum 7.5pc Pf.	88	—	10.7	12.2	—	—
3,600	Deborah Services	46	—	6.5	14.1	4.4	7.1
20,912	Frank Horsell	329	+2	—	—	13.2	17.3
—	Frank Horsell Pr Ord 87	252	+2	9.6	3.7	10.5	13.8
4,188	Frederick Parker	29	—	—	—	—	—
1,070	George Blair	56	+1	—	—	3.9	7.8
975	Ind. Precision Castings	24	+1	2.7	11.3	6.6	7.7
14,132	Isis Group	180	-1	15.0	8.3	7.1	12.9
5,488	Jackson Group	105	—	4.9	4.7	4.9	8.5
22,587	James Burrough	235	-1	13.7	5.8	15.0	23.0
3,120	James Burrough 9pc Pf.	90	—	12.9	14.3	—	—
8,691	John Howard and Co.	93	+4	5.0	5.4	7.4	11.3
3,744	Linguaphone Ord.	223	—	—	—	8.2	8.5
—	Linguaphone 10.5pc Pf.	88	—	15.0	15.3	—	—
17,231	Minihouse Holding NV	63	+1	5.9	1.1	27.6	26.3
632	Robert Jenkins	91	+1	5.0	8.2	—	—
1,440	Scruttons "A"	34	—	5.7	16.8	17.9	4.1
1,859	Torday and Carlisle	76	—	—	—	8.2	17.3
1,456	Trevian Holdings	330	—	4.3	1.3	18.8	18.4
4,710	Unilock Holdings	30	—	1.3	4.3	14.8	21.0
13,049	Walter Alexander	87	—	7.5	7.4	10.1	12.3
6,321	W. S. Yeates	228	—	17.4	7.6	6.5	11.2

Prices and details of services now available on Prestel, page 48146

FOREIGN EXCHANGE AND MONEY BROKING

The above survey which was due to be published today will now be published on Tuesday, 18th June

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

FINANCIAL FUTURES

LONDON

THREE-MONTH EURODOLLAR $1m points of 100%

	Close	High	Low	Prev
June	92.23	92.24	92.13	92.12
Sept	91.62	91.63	91.50	91.50
Dec	91.15	91.17	91.06	91.06
March	90.76	90.75	90.67	90.66
June	90.43	90.39	90.37	90.35

Est volume 3,346 (5,011)
Previous day's open int 10,487 (10,757)

THREE-MONTH STERLING £500,000 points of 100%

	Close	High	Low	Prev
June	87.95	87.98	87.40	87.38
Sept	88.46	88.48	88.32	88.20
Dec	88.96	88.98	88.70	88.70
March	88.93	88.95	88.80	88.87
June	88.33	—	—	88.50

Est volume 2,106 (1,071)
Previous day's open int 7,367 (7,373)

20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%

	Close	High	Low	Prev
June	109-15	106-20	105-29	105-27
Sept	110-07	110-07	109-15	109-16
Dec	110-13	—	—	109-22
March	110-01	—	—	109-10

Est volume 2,575 (1,972)
Previous day's open int 3,923 (3,613)
Basis quote (clean cash price of 13½% Treasury 2003 less equivalent price of near futures contract) −10 to par (32nds)

STERLING £25,000 $ per £

	Close	High	Low	Prev
June	1.2842	1.2925	1.2690	1.2720
Sept	1.2700	1.2745	1.2555	1.2578
Dec	1.2596	1.2461	1.2461	1.2470

Est volume 382 (32)
Previous day's open int 9,888 (9,289)

DEUTSCHE MARKS DM 125,000 $ per DM

	Close	High	Low	Prev
June	0.3272	0.3243	0.3222	0.3245
Sept	0.3292	0.3270	0.3254	0.3254
Dec	0.3316	0.3280	0.3280	—

Est volume 67 (43)
Previous day's open int 236 (234)

SWISS FRANCS SwFr 125,000 $ per SwFr

	Close	High	Low	Prev
June	0.3895	—	—	0.3854
Sept	0.3919	—	—	0.3878

Est volume nil (22)
Previous day's open int 179 (157)

FT-SE 100 INDEX £25 per full index point

	Close	High	Low	Prev
Jun	131.40	132.10	131.15	131.70
Sept	131.90	132.40	132.40	132.20

Est volume 224 (185)
Previous day's open int 1,564 (1,552)

JAPANESE YEN Y12.5m $ per Y100

	Close	High	Low	Prev
June	0.3978	—	—	0.3978
Sept	0.3993	—	—	0.3991

Est volume nil (13)

U.S. TREASURY BONDS 8% $100,000 32nds of 100%

	Close	High	Low	Prev
June	77-00	77-00	76-10	76-03
Sept	76-04	76-05	75-14	75-07

Est volume 1,126 (2,375)
Previous day's open int 2,181 (1,851)

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev
June	77-11	77-14	76-14	76-25
Sept	76-13	76-16	75-16	75-27
Dec	75-17	75-17	74-19	74-29
March	74-20	74-22	73-24	74-02
June	73-28	73-29	73-01	73-10
Sept	73-05	73-07	72-11	72-20
Dec	72-18	72-20	71-27	72-01
March	72-01	72-03	71-11	71-16
June	71-17	71-19	71-00	71-00
Dec	70-22	70-24	70-05	70-05

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Close	High	Low	Prev
June	92.91	92.93	92.80	92.86
Sept	92.60	92.62	92.51	92.55
Dec	92.30	92.32	92.16	92.20
March	91.92	91.97	91.82	91.87
June	91.66	91.68	91.57	91.60
Sept	91.41	91.42	91.34	91.36
Dec	91.19	91.21	91.12	91.13
March	91.00	91.00	—	90.93

CERT. DEPOSIT (IMM) $1m points of 100%

	Close	High	Low	Prev
June	92.59	92.60	92.41	92.45
Sept	92.04	92.07	91.85	91.89
Dec	91.58	91.64	91.41	91.43
March	91.19	91.19	91.17	91.04

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Close	High	Low	Prev
June	92.23	92.25	92.09	92.13
Sept	91.70	91.72	91.49	91.53
Dec	91.22	91.24	91.04	91.07
March	90.81	90.82	90.65	90.68
June	90.46	90.47	90.33	90.36
Sept	90.16	90.16	90.04	90.07
Dec	89.88	89.88	89.78	89.81
March	89.62	89.61	89.55	89.57

STERLING (IMM) $ per £

	Close	High	Low	Prev
June	1.2900	1.2930	1.2645	1.2755
Sept	1.2760	1.2790	1.2515	1.2610
Dec	1.2660	1.2700	1.2395	1.2510
March	—	—	—	1.2285
June	1.2480	—	—	1.2350

WEEKLY CHANGE IN WORLD INTEREST RATES

	May 31	change		May 31	change
LONDON			NEW YORK		
Base rates	12 1/2-12 3/4	Unch'd	Prime rates	10	Unch'd
7 day Interbank	12 11/16	Unch'd	Federal funds	7 3/4	+1/16
3 mth Interbank	12 1/2	−1/8	3 Mth. Treasury Bills	7.17	+0.03
Treasury Bill Tender	11.8015	−0.1924	6 Mth. Treasury Bills	7.30	−0.05
Band 1 Bills	12 5/8	Unch'd	3 Mth. C D	7.60	−0.08
Band 2 Bills	12 1/4	Unch'd			
Band 3 Bills	12 1/8	Unch'd	FRANKFURT		
Band 4 Bills	12	Unch'd	Lombard	6.0	Unch'd
3 Mth. Treasury Bills	11 7/8	Unch'd	One Mth. Interbank	5.775	+0.01
1 Mth. Bank Bills	12 3/16	Unch'd	Three month	5.775	+0.05
3 Mth. Bank Bills	11 15/16	−1/16			
			PARIS		
TOKYO			Intervention Rate	10 1/8	Unch'd
One month Bills	6.40625	+0.0625	One Mth. Interbank	10 1/8	−1/16
Three month Bills	6.34375	Unch'd	Three month	10 1/16	+1/16
BRUSSELS			MILAN		
One month	8 15/16	−7/16	One month	14 11/16	+1/8
Three month	8 15/16	−1/16	Three month	14 1/16	+1/8
AMSTERDAM			DUBLIN		
One month	7 1/16	−1/16	One month	12 3/4	+1/8
Three month	6 15/16	−1/32	Three month	12 5/8	+1/8

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, band 3 bills 34 to 63 days and band 4 bills 64 to 91 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

Struggling dollar helps pound

BY COLIN MILLHAM

The dollar remained within a range of DM 3.00 and DM 3.20 last month, finishing on Friday towards the lower end of its range. At present it seems more likely to move decisively below DM 3.00 than break back above DM 3.20, but the U.S. currency has shown resilience around DM 3.00 despite less than hoped for from recent economic statistics.

April durable goods orders were revised to a fall of 0.2 per cent from an earlier rise of 0.1 per cent, and this led to selling of the dollar around the time of the London close on Friday. But a fall of 0.2 per cent in leading indicators, announced Thursday, and Friday's deficit of $11.85bn in the April U.S. trade figures came as no surprise and had little impact on the foreign exchanges.

In general it was a very quiet week, with London and New York closed on Monday for holidays. Month-end factors did not appear to increase demand for the dollar, and the trend of the U.S. currency was weaker.

There has been little evidence so far that U.S. growth in the present quarter will rise sharply after the disappointing performance of the economy in the first three months.

An important day will be Thursday June 20 when the flash estimate of second quarter GNP will be published as well as a revision to first-quarter GNP.

Any move of money out of the dollar is attracted into London by the very high level of interest rates. On Friday sterling's index finished at the highest level for a year and the pound was also at its best against the D-mark since the beginning of February last year. When sterling was last at its present level against the German currency it was above $1.40, and on Friday closed at $1.2865, indicating the possible competitiveness problems facing Britain with the pound approaching DM 4.00 and already above FFr 12.00.

Apart from interest rates sterling was also underpinned by a current account surplus in April after the disappointing March trade figures. These factors offset any nervousness about lower oil prices.

STERLING INDEX

	May 31	Previous
8.30 am	80.0	79.2
9.00 am	80.0	79.1
10.00 am	80.0	79.2
11 am	80.0	79.2
Noon	80.0	79.2
1.00 pm	80.0	79.2
2.00 pm	80.0	79.2
3.00 pm	80.0	79.2
4.00 pm	80.3	79.3

£ IN NEW YORK

	May 31	Prev. close
£ Spot	$1.2865-1.2880	$1.2750-1.2760
1 month	0.54-0.52 pm	0.52-0.50 pm
3 months	1.51-1.48 pm	1.48-1.46 pm
12 months	4.05-3.95 pm	3.97-3.90 pm

Forward premiums and discounts apply to the U.S. dollar.

POUND SPOT—FORWARD AGAINST POUND

May 31	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.2650-1.2900	1.2860-1.2870	0.54-0.51c pm	4.90	1.50-1.45pm	4.59
Canada	1.7496-1.7696	1.7645-1.7695	0.48-0.39c pm	2.96	1.30-1.16 pm	2.78
Nethlnd.	4.42 3/4-4.44 1/2	4.43-4.44	2-1 7/8c pm	5.24	6 1/8-6 pm	5.47
Belgium	78.65-79.36	78.65-78.75	26-21c pm	3.58	74-65 pm	3.53
Denmark	14.11-14.24	14.23-14.24	4 3/8-4 1/8ore pm	3.79	12 7/8-11 3/8pm	3.41
Ireland	1.2531-1.2584	1.2565-1.2575	0.09p pm-0.06dis	−0.14	.38pm-.07dis	−.46
W. Ger	3.92-3.95	3.92 3/4-3.93 3/4	2 1/2-2 1/4pf pm	7.06	6 3/4-6 1/2 pm	6.74
Portugal	220-225 1/2	220 1/4-224 1/2	95-420c dis	−13.89	300-1195dis	−13.44
Spain	222 1/4-223 1/4	222 3/4-223 1/4	5c pm-10 dis	−0.13	35-65 dis	−0.90
Italy	2,502-2,517 1/2	2,511-2,512	par-3lire dis	−0.72	3-7 dis	−0.80
Norway	11.28 3/4-11.37 1/2	11.36 1/2-11.37 1/2	par-1/2ore dis	−0.40	par-7/8dis	−0.15
France	11.96-12.04 1/4	12.00 1/4-12.01 1/4	2 1/2-2 1/8c pm	2.31	6 1/2-5 3/4 pm	2.04
Sweden	11.31-11.38	11.31-11.32	3 1/4-3 7/8ore dis	−3.78	10 1/4-10 7/8dis	−3.71
Japan	320 1/4-323 3/4	322 1/2-323 1/2	1.76-1.61c pm	6.26	4.98-4.78pm	6.04
Austria	27.56-27.70	27.62-27.70	15 1/4-13 3/4gro pm	6.29	42 1/2-38 1/2 pm	5.87
Switz.	3.30 1/4-3.32 1/2	3.31-3.32	2 1/4-2c pm	7.47	6-5 7/8 pm	7.16

Belgian rate is for convertible francs. Financial franc 80.30-80.40.
Six-month forward dollar 2.64-2.59c pm. 12-month 4.05-3.90c pm.

OTHER CURRENCIES

May 31	£	$		£ Note Rates
Argentina Peso	755.30-756.60	593.55-594.15	Austria	27.50-27.80
Australia Dollar	1.9245-1.9285	1.5070-1.5095	Belgium	79.15-79.95
Brazil Cruzeiro	6,947-6,979	5,460-5,480	Denmark	14.07-14.21
Finland Markka	8.1985-8.2335	6.4125-6.4145	France	11.93-12.05
Greek Drachma	171.74-175.48	134.79-137.51	Germany	3.91 1/4-3.94 1/4
HongKong Dollar	10.0000-10.0100	7.7710-7.7730	Italy	2495-2530
Iran Rial	116.50*	92.50*	Japan	320-324
KuwaitDinar(KD)	0.3902-0.3910	0.30300-0.30315	Netherlands	4.41 1/2-4.45 1/2
Luxembourg Fr	78.65-78.75	61.50-61.60	Norway	11.25-11.36
Malaysia Dollar	3.1660-3.1710	2.4635-2.4665	Portugal	215-226
New Zealand Dlr.	2.8405-2.8485	2.2140-2.2190	Spain	215-225
Saudi Arab Riyal	4.6491-4.6569	3.6095-3.6100	Sweden	11.31-11.42
Singapore Dollar	2.8570-2.8620	2.2215-2.2245	Switzerland	3.30-3.33
Sth African Rand	2.5525-2.5660	1.9900-1.9940	United States	1.26 1/2-1.28 1/2
U.A.E. Dirham	4.7295-4.7381	3.6720-3.6750	Yugoslavia	325-350

* Selling rate.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu May 31	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian franc	44.9008	45.2033	+0.67	+0.72	±1.5471
Danish krone	8.14104	8.07368	−0.83	−0.78	±1.6419
German D-mark	2.24184	2.24578	+0.18	+0.23	±1.1475
French franc	6.87456	6.84552	−0.42	−0.37	±1.3669
Dutch guilder	2.52595	2.53115	+0.21	+0.26	±1.5171
Irish punt	0.72569	0.717326	−1.15	−1.10	±1.6673
Italian lira	1403.49	1432.31	+2.05	+2.05	±4.0410

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

FORWARD RATES AGAINST STERLING

	Spot	1-month	3-month	6-month	12-month
Dollar	1.2865	1.2813	1.2718	1.2604	1.2460
D-Mark	3.9325	3.9097	3.8686	3.8084	3.7116
French Franc	12.0075	11.9842	11.9462	11.8018	11.6836
Swiss Franc	3.3150	3.2943	3.2558	3.2020	3.1054
Japanese Yen	323.0	321.32	318.12	313.82	306.79

BANK OF ENGLAND TREASURY BILL TENDER

	May 31	May 24		May 31	May 24
Bills on offer	£100m	£100m	Top Accepted rate of discount	11.8194%	11.9527%
Total of applications	£482.4m	£495.36m	Average rate of discount	11.8015%	11.9217%
Total allocated	£100m	£100m	Average yield	12.16%	12.29%
Minimum accepted bid	£97.055%	£97.025	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	76%	98%			

DOLLAR SPOT—FORWARD AGAINST DOLLAR

May 31	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.2650-1.2900	1.2860-1.2870	0.54-0.51c pm	4.90	1.50-1.45 pm	4.59
Ireland†	1.0100-1.0260	1.0235-1.0245	0.44-0.34c pm	4.62	1.20-0.90pm	4.14
Canada	1.3740-1.3777	1.3740-1.3750	0.21-0.24c dis	−1.94	0.60-0.65dis	−1.81
Nethlnd.	3.4320-3.4600	3.4605-3.4615	0.15-0.12c pm	0.47	0.79-0.76 pm	0.89
Belgium	61.60-62.30	61.50-61.60	6-7c dis	−1.25	15-17 dis	−1.03
Denmark	10.96 1/2-11.12 1/4	11.05 3/4-11.06 1/4	1-1 1/2ore dis	−1.35	2 1/2-3 1/4dis	−1.08
W. Ger.	3.0475-3.0860	3.0560-3.0570	0.57-0.52pf pm	2.12	1.75-1.70pm	2.23
Portugal	174 1/4-177	175-177	190-400c dis	−18.88	450-1150dis	−18.31
Spain	172 3/4-175 1/4	173 1/2-174	82-92c dis	−5.97	260-285dis	−6.23
Italy	1,951-1,975	1,951-1,952	9-9 1/2lire dis	−5.62	26 1/4-27dis	−5.40
Norway	8.83 1/4-8.87 1/2	8.83 1/4-8.83 3/4	4-4 1/2ore dis	−5.75	10 1/2-11dis	−4.85
France	9.31 1/2-9.43 1/4	9.31 1/4-9.32 1/4	1.80-2.00c dis	−2.49	5.80-6.10dis	−2.53
Sweden	8.79 1/4-8.93	8.79 3/4-7.79 1/4	6 1/2-7ore dis	−9.06	18 1/2-19dis	−8.41
Japan	250.95-252.05	251.10-251.20	0.31-0.27y pm	1.38	0.97-0.92pm	1.50
Austria	21.50-21.76	21.50-21.60	2.90-2.00gro pm	1.33	8.00-5.50pm	1.24
Switz.	2.5600-2.6130	2.5720-2.5730	0.61-0.56c pm	2.69	1.76-1.70 pm	2.66

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 62.40-62.50.

CURRENCY MOVEMENTS

May 31	Bank of England Index	Morgan Guaranty Change %
Sterling	80.3	−2.0
U.S. dollar	145.3	+50.8
Canadian dollar	87.4	−7.3
Austrian schilling	112.4	+2.6
Belgian franc	89.4	−10.9
Danish Kroner	77.6	−6.6
Deutsche mark	122.1	+6.9
Swiss franc	139.8	+7.7
Guilder	112.8	+3.3
French franc	65.1	−15.4
Lira	45.5	−17.8
Yen	164.1	+11.0

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

CURRENCY RATES

May 31	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.779702	0.571828
U.S. $	7 1/2	0.992950	0.726506
Canadian $	9.59	*	1.00040
Austria Sch.	4 1/2	21.5679	15.7652
Belgian Fr.	9 3/4	61.7615	45.2053
Danish Kr.	7	11.0342	8.07366
Dmark	4 1/2	3.0674	2.24578
Guilder	5 1/2	3.45696	2.53115
French Fr.	9 1/2	9.35468	6.84552
Lira	15 1/2	1957.10	1432.31
Yen	5	250.074	183.044
Norway Kr.	8	8.81243	6.44594
Span'h Pta.	—	173.803	127.212
Swedish K.	11.5	8.85960	6.48045
Swiss Fr.	4	2.5886	1.89510
Greek Dr'ch	20 1/2	135.399	99.0230
Irish Punt	13 3/4	0.990401	0.717326

*C$/SDR rate for May 30: 1.36945.

EXCHANGE CROSS RATES

May 30	Pound St'rling	U.S. Dollar	Deutschem'k	J'panese Yen	FrenchFranc	Swiss Franc	Dutch Guild	Italian Lira	Canada Dollar	Belgian Franc
Pound Sterling	1.	1.287	3.933	323.0	12.01	3.315	4.435	2512.	1.767	78.70
U.S. Dollar	0.777	1.	3.057	251.6	9.330	2.573	3.451	1958.	1.373	61.65
Deutschemark	0.254	0.327	1.	82.14	3.053	0.843	1.128	638.7	0.449	20.01
Japanese Yen 1,000	3.096	3.983	12.17	1000.	37.17	10.26	13.73	7776.	5.471	243.7
French Franc 10	0.833	1.071	3.275	269.0	10.	2.761	3.694	2092.	1.472	65.54
Swiss Franc	0.302	0.386	1.186	97.44	3.622	1.	1.338	757.6	0.533	23.74
Dutch Guilder	0.226	0.290	0.887	72.83	2.707	0.747	1.	566.3	0.398	17.75
Italian Lira 1000	0.398	0.512	1.566	128.6	4.781	1.320	1.766	1000.	0.704	31.34
Canadian Dollar	0.566	0.728	2.226	182.8	6.795	1.876	2.510	1421.	1.	44.54
Belgian Franc 100	1.271	1.636	4.997	410.4	15.26	4.212	5.635	3191.	2.246	100.

EURO-CURRENCY INTEREST RATES (Market closing rates)

May 31	Sterling	U.S. Dollar	Canadian Dollar	Dutch Guilder	Swiss Franc	D-mark	French Franc	Italian Lira	Belgian Franc Conv.	Belgian Franc Fin.	Yen	Danish Krone
Short-term	12 5/8-12 3/4	7 1/8-7 5/8	10-10 1/2	7 1/8-7 5/8	1 1/4-1 3/4	5 5/8-5 3/4	10 1/16-10 7/16	12 1/2-13 1/2	9-9 1/4	9-9 1/4	6 5/16-6 1/2	9 1/8-9 5/8
7 days' notice	12 5/8-12 3/4	7 5/8-7 3/4	10-10 1/16	7 1/8-7 5/8	2 1/8-2 1/4	5 5/8-5 3/4	10 1/16-10 7/16	12 3/4-14 1/4	9-9 1/4	9-9 1/4	6 7/16-6 9/16	9 1/8-9 5/8
Month	12 5/8-12 3/4	7 5/16-7 7/16	10-10 1/16	7 1/16-7 3/16	5 1/8-5 1/4	5 1/2-5 5/8	10 1/8-10 1/4	13-15 1/8	8 7/8-9 1/8	8 7/8-9 1/8	6 1/16-6 7/16	9-9 1/8
Three months	12 11/16-12 13/16	7 7/16-7 9/16	10 1/8-10 5/16	6 15/16-7 1/16	5 1/8-5 1/4	5 1/2-5 5/8	10 1/4-10 3/8	13-15 1/8	8 7/8-9 1/8	8 7/8-9 1/8	6 5/16-6 1/2	8 7/8-9 3/8
Six months	12 1/4-12 3/8	7 13/16-8 1/16	10 1/4-10 7/16	6 11/16-6 13/16	5 1/8-5 1/4	5 7/16-5 11/16	10 3/8-10 1/2	13 1/8-13 1/2	9-9 1/4	9-9 1/4	6 3/16-6 5/16	9-9 1/2
One year	12 1/16-12 3/16	8 1/16-8 5/16	10 5/8-10 13/16	6 11/16-6 13/16	5 1/16-5 3/16	5 5/8-5 3/4	10 5/8-10 7/8	13 3/4-14 1/8	9 1/4-9 1/2	9 1/4-9 1/2	6 7/16-6 9/16	9 1/4-9 3/4

Asian $ (closing rates in Singapore): Short-term 7 5/8-7 3/4 per cent; seven days 7 5/8-7 3/4 per cent; one month 7 5/8-7 3/4 per cent; three months 7 3/4-7 7/8 per cent; six months 8-8 1/8 per cent; one year 8 1/2-8 5/8 per cent. Long-term Eurodollars: two years 9 1/2-9 3/4 per cent; three years 9 7/8-10 1/8 per cent; four years 10 1/4-10 1/2 per cent; five years 10 1/2-10 3/4 per cent nominal. Short-term rates are call for U.S. dollars and Japanese yen; others two days' notice.

MONEY MARKETS

Waiting for money supply data

The strength of sterling produced lower interest rates on the London money market last week, but there was a general lack of conviction about any lowering of clearing bank base rates. Press comment that base rates are likely to be cut around the time of the retail prices index and monthly building society receipts on June 14 caused a certain amount of furore, but dealers are generally very sceptical ahead of tomorrow's money supply and bank lending figures.

The previous very large rise in sterling M3 money supply and bank lending announced last month set back any hopes of a reduction in May of base rates, and the next figures are not expected to be particularly encouraging.

Latest estimates suggest that sterling M3 will grow by about ¾ per cent, compared with 2.9 per cent, but this will leave the annualised figure 3 pc above target even on the new calculation announced by the Treasury.

The change in method of calculation brings the growth rate down to 12 per cent from 19 per cent, while bank lending is anticipated to fall sharply from the monthly figure to mid-April of £2.6bn. These will only return the figures to some degree of normality however and do not in themselves appear to justify lower base rates.

On the other hand any improvement may be seen as a move towards lower rates because of the increased demand for sterling.

The pound closed at very high levels against Continental currencies on Friday and at the highest for over a month against the dollar.

Whether this is enough to encourage lower London interest rates, given the present domestic background, is another matter however.

The Treasury has changed the basis of calculation for M3 growth and Mr Nigel Lawson, Chancellor of the Exchequer, has suggested the figure is less important than the narrowly based Mo calculation involving notes and coins. But the market will need to be convinced that everything is in order, and will continue to concentrate its attention on M3 at present. This may mean no change in base rates for a little longer.

UK clearing banks base lending rate 12½-12¾ per cent since April 19.

MONEY RATES

May 31	Frankfurt	Paris	Zurich	Amst'dam	Tokyo	Milan	Brussels	Dublin
Overnight	5.90-6.00	10 1/4	1 5/8-1 5/8	7 1/4-7 3/8	6.09375	15 1/8-15 1/2	5.95	12 3/4-13
One month	5.70-5.85	10 1/16-10 3/16	5 1/16-5 5/16	7-7 1/8	6.40625	14 5/8-15	8 1/4-8 7/8	12 5/8-12 7/8
Two months	5.70-5.85	10 1/8-10 1/4	—	—	—	—	—	12 1/2-12 3/4
Three months	5.70-5.85	10 1/8-10 1/4	5 1/16-5 3/16	6 7/8-7	6.34375	14 7/8-15 1/4	8 7/8-9	12 1/2-12 3/4
Six months	5.75-5.90	10 3/16-10 5/16	—	6 11/16-6 13/16	—	—	8 7/8-9	12 1/2-12 3/4
Lombard	6.0	—	—	—	—	—	—	—
Intervention	—	10 1/8	—	6 7/8	—	—	—	—

LONDON MONEY RATES — Discount Houses Deposit and Bill Rates

May 31 1985	Sterling Certificate of deposit	Interbank	Local Authority deposits	Company Deposits	Market Deposits	Treasury (Buy)	Treasury (Sell)	Eligible Bank (Buy)	Eligible Bank (Sell)	Fine Trade (Buy)
Overnight	—	10-13	12 5/8	11 1/8-12 1/8	8-12 5/8	—	—	—	—	—
2 days notice	—	—	12 5/8-12 3/4	—	—	—	—	—	—	—
7 days or	—	—	—	—	—	—	—	—	—	—
7 days notice	—	12 5/8-12 3/4	12 5/8-12 11/16	12 3/4	12 5/8	—	—	—	—	—
One month	12 3/4-12 5/8	12 5/8-12 3/4	12 5/8	12 5/8	12 1/8	12 1/4	12 1/16	12 3/16	12 1/4	12 7/8
Two months	12 5/8-12 7/16	12 7/16-12 11/16	12 1/8	12 3/16	12 1/4	12 1/8	12	12 3/16	12 1/32	12 7/32
Three months	12 1/2-12 3/8	12 7/16-12 5/8	12 3/16	12 1/8	12 1/8	11 13/16	11 7/8	11 15/16	11 7/8	12 1/8
Six months	12 1/16-12 3/16	12 3/8-12 1/2	12 1/8	—	—	—	—	11 5/8	11 1/8	12 1/8
Nine months	11 11/16-12 1/16	12 1/4-12 3/8	—	—	—	—	—	—	—	—
One year	11 11/16-11 13/16	12 1/8-12 1/4	11 7/8	—	—	—	—	—	—	—

	Local Auth. negotiable bonds	Local Authority Deposits	Finance House Deposits	$ Cert of Deposits	SDR Linked Deposits	ECU Linked Deposits
One month	13 1/4-13	—	12 3/4	7.5-7.6	7 11/16-7 13/16	9 1/16-9 7/16
Two months	13 1/8-13	—	12 13/16	7.6-7.70	7 11/16-7 13/16	9 3/8-9 1/2
Three months	13 1/16-12 15/16	—	12 5/8	7.65-7.75	7 15/16-8 1/16	9 3/8-9 1/2
Six months	12 13/16-12 11/16	—	12 1/2	7.8-7.9	7 15/16-8 1/16	9 7/16-9 5/8
Nine months	12 3/4-12 5/8	—	12 1/2	8.2-8.3	—	—
One year	12 9/16-12 7/16	—	12 1/4	8.35-8.45	8 1/4-8 1/2	9 9/16-9 11/16
Two years	—	11 5/8	—	—	—	—
Three years	—	11 1/2	—	—	—	—
Four years	—	11 1/2	—	—	—	—
Five years	—	11 1/2	—	—	—	—

ECGD Fixed Rate Export Finance IV: Average Rate of Interest period April 3 to May 7 (inclusive): 12.787 per cent. Local authority and finance houses seven days' notice, others seven days' fixed. Finance Houses Base Rate (published by the Finance Houses Association): 13½ per cent from May 1, 1985. London and Scottish Clearing Bank Rates for lending 12½-13¾ per cent. Bank Deposit Rates for sums at seven days' notice 6.66-7.26 per cent (net). Treasury Bills: Average tender rate of discount 11.8015 per cent. Certificates of Tax Deposit (Series 6): Deposits £100,000 and over held under one month 12¾ per cent; one-three months 12¾ per cent; three-six months 12½ per cent; six-nine months 12¼ per cent; nine-12 months 12¼ per cent. Under £100,000 11¾ per cent from May 14. Deposits held under Series 5 12¼ per cent. The rate for all deposits withdrawn for cash 8 per cent.

FT LONDON INTERBANK FIXING

(11.00 a.m. May 31)

3 months U.S. dollars

bid 7 3/4 — offer 7 7/8

6 months U.S. dollars

bid 8 — offer 8 1/8

The fixing rates are the arithmetic means, rounded to the nearest one sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (4 pm)

Prime rate	10
Broker loan rate	8 1/4-8 3/4
Fed funds	7 3/4
Fed funds at intervention	(—)

Treasury Bills

One month	6.95
Two month	7.05
Three month	7.12
Six month	7.23
One year	7.41

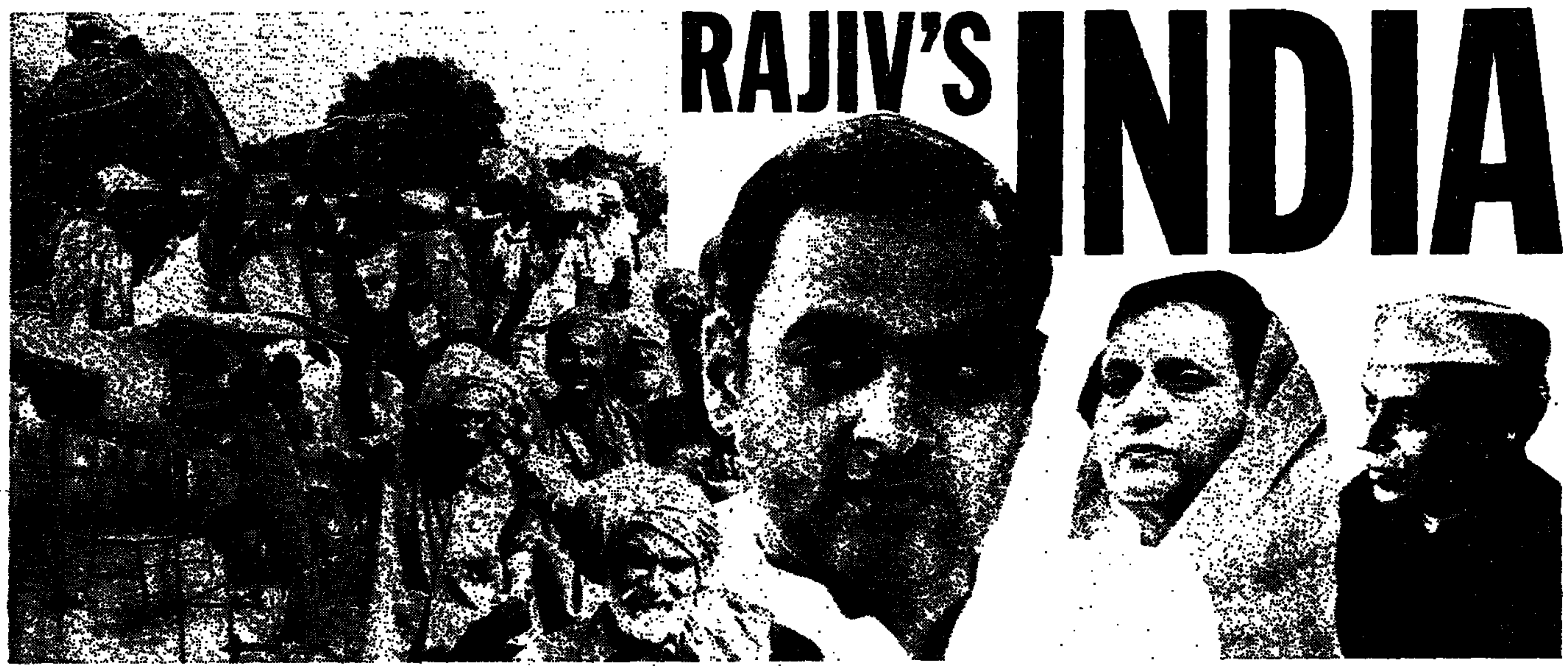
Treasury Bonds

Two year	100 13/32
Three year	101 23/32
Four year	105 1/4
Five year	100 13/32
Seven year	107 20/32
10 year	105 31/32
30 year	108 3/32

SECTION III

FINANCIAL TIMES SURVEY

RAJIV'S INDIA



Mr. Rajiv Gandhi, India's new 40-year-old leader, is shaking up lethargic traditions with liberalised policies to boost growth and efficiency, but communal unrest in Punjab and elsewhere remains a major problem. Inset, above, are former Prime Ministers, Mrs. Indira Gandhi and Mr. Jawaharlal Nehru, her father, founder of the family dynasty.

Springboard for growth

By JOHN ELLIOTT
South Asia Correspondent

IN THE past year India has been hit with two major shocks which are changing the course of its history.

The first, from which it has yet to recover, involved a series of violent and traumatic events starting a year ago this week (June 3) when Mrs Indira Gandhi, Prime Minister, ordered the Indian Army into the Sikhs' Golden Temple at Amritsar. Five months later she was slain by two Sikh bodyguards. Subsequently nearly 3,000 Sikhs were slaughtered by Hindus in vengeful riots.

The second shock has been administered by Mr Rajiv Gandhi, who became Prime Minister of this strong but troubled country the day his mother died. With the vigour of a 40-year-old he is providing India with the springboard it has been needing for years to launch an economic and industrial lift-off, despite being constantly distracted by the Punjab crises that killed Mrs Gandhi.

In his first seven months as Prime Minister he has tried to eject the country from the inertia, lethargy and corruption which has bogged it down. He has a won the enthusiasm of young industrialists, top civil servants and some politicians, and he has started to cut through the self-serving and corrupt bureaucracy that is one of India's worst blights.

Now he is starting on his first major foreign tour, after a significant six-day visit to Russia last month, and is visiting a series of countries including the U.S. and France.

He is making his mark on the world scene as the Prime Minister of a country of over 700m people—a country which needs more financial and technological help from developed countries but which is too proud, and too determined to be independent and non-aligned to bow to foreign pressures, either from countries like the U.S. or from large multinational banks or industrial companies.

"Self reliance, not autarchy" is Mr Gandhi's description of the way he is prepared to soften principles of overall self-sufficiency and technological sovereignty in order to allow into India foreign finanse, technology, and company investments which will help speed India's development without demolishing domestic industry's chance to grow.

He will never do enough totally to please the most capitalist politicians of the U.S., nor all multi-nationals. And he will not shift foreign policy away from India's long friendship with the USSR, which has just struck trade and aid links stretching to the year 2,000.

But he does want to develop a separate relationship with the U.S. although progress will depend largely on how willing the U.S. is to stop arming Pakistan and, more importantly, to stop it making a nuclear weapon. Generally, he wants to improve relations with Pakistan and other south Asian countries, which could win him international respect.

Mr Gandhi's politics are firmly rooted in the traditions of Mr Jawaharlal Nehru, India's first Prime Minister and founder of his family dynasty. But he has gone too far, too fast for some of India's older politicians, including people in the Gandhis' own Congress I Party, with talk of new trade and industrial policies and with tax changes that have helped the upper middle classes, but hit the poor with sharp price rises. He has been speaking too bluntly about boosting the private sector and productivity, admitting foreign technology, allowing loss-making companies to die, and taking a tough line with the inefficient job-protecting public sector.

Rehabilitation

"Mrs Gandhi would never have forgotten to mention socialism," says an elderly expert on Indian politics. "The presentation, especially of industrial policy, was faulty. Rajiv talked in the modern lingo of productivity, efficiency and jobs which sounded like unbridled capitalism and was not translated for older people used to hearing about socialism and planning."

That has now been corrected with suitable political speeches and the partial political rehabilitation of Mr Pranab Mukherjee (former Finance Minister and close aide of Mrs Gandhi), who was summarily dropped by Mr Gandhi from ministerial office.

Socialism was stressed at a recent key meeting of the Gandhi's ruling Congress I Party. Socialism in India is not intended to mean bureaucratic centralism or widespread nationalisations, but egalitarianism. It is a translation of the Hindi word *samyavad* which means equal. So socialism is a policy to bridge the widening gaps between the rich and poor which help cause a lot of communal tensions.

But there are worries in industry, about whether Mr Gandhi's political balancing speeches will be taken as signals by middle and junior civil servants and others that nothing really has to change and that the shock of Mr Gandhi's tough beginning will fade away.

Industrial policy reforms are, however, continuing to be announced as they are finalised, liberalising industries and large companies from many restrictions. A new five-year fiscal policy is due within a few months, after the country's new five-year plan for 1985-90 has been announced.

"I don't believe Indian society has the strength to withstand the rigours of competition, which in the raw sense means that some industries will go to the wall and jobs will be lost," says Dr Fredie Mehta, a noted economic commentator and a director of the large Tata Industrial Group.

"The political problem is quite acute — with our size of population, we cannot be oblivious to that. No policy-maker in India can give up the employment angle," says Mr Vishwanath Pratap Singh, Finance and Commerce Minister who is now involved in framing industrial policies. The aim is to allow loss-makers to die and take a tough line with over-employment in the public sector, while finding fresh employment for people affected.

Shortages

Mr Singh says that there has been a response by industry in terms of investment to the new liberalising policies. Major changes in industrial licensing procedures have speeded up the launching of projects and have encouraged industrialists to prepare more investment plans.

In a country where perennial shortages have meant that almost any consumer item can be sold, irrespective of quality or prices, the pinnacle of industrial achievement, until now, has been to win industrial approvals from bureaucrats and to lay down reputation-building money-spinning assets.

Mr Gandhi is trying to change that by freeing industrialists from many controls so that they can react to market pressures meeting rapidly growing consumer demands and producing goods that are internationally competitive. This requires increased imports of high technology and of raw materials and intermediate goods.

The country's economy is sound at present with 4 per cent industrial growth and inflation comfortably below double figures, but industry needs to

CONTINUED ON PAGE 3

CONTENTS

Political scene	2
Foreign policy	3
Defence issues	4
Nuclear power	4
The economic scene	5
Banking and finance	6, 7
Business profits	8
Trade and industry	9, 10
The private sector	10
Industrial sectors	11, 12, 13
The war on corruption	14
Population	14

● This survey was written by John Elliott, South Asia Correspondent, based in New Delhi; with Alain Cass Asian Editor; D. P. Kumar, New Delhi; Philip Stephens; Dina Thomson; R. C. Murthy, Bombay; and P. C. Mahanti, Calcutta.

● Pictures by Leonard Burt.

Serious elections setbacks in South India

Sombre warning for Congress

WHEN Mr Rajiv Gandhi was swept to power after his mother was assassinated, his ruling Congress (I) party captured a record number of seats in the Lok Sabha, the lower house of Parliament.

Last December's general election gave Congress (I) more than 400 seats in the 542-member Parliament. A wave of sympathy, his own fresh, clean image and, above all else, India's desire to appear united in the face of crisis gave the third Nehru the biggest majority in India's modern political history.

The political scene

ALAIN CASS

Mr Gandhi and a euphoric Congress (I), demoralised after years of being reduced to relative insignificance by a leader who arrogated all significant powers to herself, hoped to repeat the magic in March when India went to the polls again, this time to elect state assemblies.

It was not to be. Although Congress (I) strengthened its hold in a number of states in the Hindi belt of the north, its traditional stronghold, the party suffered a serious setback in a number of other states, notably in the south of the country.

Andhra Pradesh voted for the ageing film star, Mr N. T. Rama Rao, whom Mrs Gandhi tried to topple last year. Congress also lost Karnataka, Tamil Nadu, West Bengal, Sikkim and Tripura. It came within a whisker of being beaten in the wealthy and immensely important state of Maharashtra.

Setbacks

Mr Gandhi's party also suffered setbacks at the by-elections to three Lok Sabha and 26 Assembly seats contested in early May. Over 5m voters, spread over 10 states, delivered a sombre warning to the Congress. The ruling party won only seven of the assembly seats and lost two parliamentary seats, one in Uttar Pradesh, Congress heartland and home state of Mr Gandhi, the Prime Minister.

The view that the shine was beginning to wear off Mr Gandhi's December victory was reinforced when the right-wing extremist Hindu party, the Shiv Sena, captured Bombay Municipal Corporation in May.

Whether the state assembly elections signalled that Congress (I) was back on its downward path as a party of receding national stature which could only count on winning the states of the Gangetic plain is too early to say.

What is clear, however, is that Mr Gandhi's historic victory in December was a vote for unity not for Congress (I). It did not revolutionise the face of Indian politics by its mere occurrence.

What is equally clear is that if Mr Gandhi is to halt the underlying deterioration of his party's position and consolidate his hold on power he will have to address himself to the central political problem of his generation: the fractious relationship between New Delhi, the capital, and India's 22 states.

Tackling individual problems such as the Punjab or the violence in Gujarat over the question of job reservation for backward castes is one thing. Developing a coherent policy which devolves sufficient power to the states without endangering national unity is another.

The theme of centre-state relations has all but dominated the dialogue between the political parties since the Emergency in 1975. The two-year clampdown by Mrs Indira Gandhi, when all parties were banned, was the most spectacular example of New Delhi's exercise of monopoly powers.

The two issues which lie at the core of the problem are the question of financial allocations to the states by the centre in a country where the gap between rich and poor is the most volatile, single factor and the central government's increasing habit to undermine or topple unfriendly state governments.

The perception has grown in the "rim-lands" of India-West Bengal to Kerala and Maharashtra to Tamil Nadu—that New Delhi has made a policy of discriminating for or against state governments it favoured, or wanted to get rid of, by granting or withholding funds. This alleged economic favouritism lies at the core of many of strained centre-state relations.

This feeling that the centre has been increasingly insensitive to the economic and political aspiration of the regions has led both to the rise of regional parties as well as to the encouragement of extremism such as the secessionist movements of Punjab and Assam. These fissiparous tendencies have been reinforced by the virtual absence of credible national opposition to Congress (I) since Mrs Gandhi was returned to power in 1980.

It would be a mistake to represent the rise of these regional parties as a threat to India's integrity. There are those who argue, with some force, that the phenomenon is merely part of a maturing process. Nevertheless, the rise and, what is more important, the survival of such diverse parties as the DMK in Tamil Nadu, the Telugu Desam in Andhra Pradesh, the National Conference in Kashmir and the Akali Dal in Punjab represent a major challenge to Mr Gandhi's statesmanship.

New broom

Mr Gandhi has made a start by taking a new broom to his own party in an effort to freshen up its tarnished image. For the national elections about 200 out of 500 contesting candidates were replaced. In the assembly elections in March Mr Gandhi proved even more ruthless. Over 1,000 candidates were told to stand down and be replaced by others. This was out of a total 2,500 Congress (I) candidates or over one-third of the parliamentary party at state level.

Says Mr Srikant Varma, one of Mr Gandhi's tough new breed of Party Secretaries: "We are determined to revamp the party. We have started getting rid of those who are corrupt, inefficient or incompetent. Our emphasis now is on youth and women. The process will continue. If people don't do a good job, we'll drop them."

Although close observers of Congress (I) have seen one or two old faces sneak back into the party lists, most people are giving the Prime Minister credit for tackling a problem which had been left to fester for years.

Shortly after he came to office, Mr Gandhi also guided through parliament a Bill prohibiting defections by MPs from one party to another. This had reached farcical levels in some states where MPs were known to cross the floor several times in a sitting for money or patronage.

Mr Gandhi is taking other steps to give Indian politics a new look. He is proposing a measure to allow industry to contribute legally to political parties. This would have the effect of reducing the flood of black market money passed to politicians under the counter by companies for their own ends—money which is almost entirely unaccounted for. He is also actively restructuring the Congress Party's youth wing.

Mr Gandhi will face a number of crucial tests in the next few months which will give him a chance to demonstrate whether he is able to stand by his election pledge to give India a new look. Gujarat, where a Congress (I) Chief Minister overplayed his hand after a landslide election victory, provoking serious communal violence. Punjab, where the systematic weakening of the moderate Sikh leadership, the Akali Dal, has been an important contributing factor to the instability. Kashmir, where an incumbent administration appears increasingly beseiged and where an election would probably cost Congress (I) and return the National Conference.

Mr Gandhi's supporters says he is determined to bring about real change and say he has begun the process. Even some of his opponents, such as the charismatic Mr A. B. Vajpayee, leader of the opposition Bharatiya Janata Party (BJP) give him some credit. "He has made a good start. I believe he is sincere," says Mr Vajpayee although he adds: "He has begun to falter recently."

Mr Gandhi's critics say that, while is clear thinking in some areas, he is too easily influenced by those close to him and has merely replaced his mother's kitchen cabinet with his own.

The truth may be somewhere in between. Mr Gandhi will certainly have plenty of opportunities to prove his commitments to change.

● Rajiv Gandhi, above, is faced with the need to halt the underlying deterioration of his party's position and to consolidate his hold on power.

● *On broad social levels, Mr Gandhi has bold plans for reforms in India's educational system which he considers essential to propel the nation to its proper place in the 21st century.* Above, right, is a view of an apprentice training school, where students work at lathes, form-fitting and chamfering. The Government has made a major increase in the funds alloted to education—the projected increase in the budget for 1985-86 has been increased from Rs 4.13bn to Rs 5.04bn.

● Pictured right are drummers and minstrels who led 5,000 Sikhs from the Golden Temple recently, in a parade to celebrate the festival of Baisakhi. Mounted police and troops with machine guns kept watch during the celebrations.

The Punjab: no simple solution to sectarian conflict problem

REVOLTS by India's strong regional forces against the centre are nothing new. They *do not necessarily threaten* India's unity, as foreigners often think and Indian leaders often claim for their convenience, but they are none the less serious for that.

Mrs Indira Gandhi was faced with a rising tide of regional opposition. Assam and the north-east, Kashmir and the increasingly powerful political forces in India's southern states of Andhra Pradesh, Tamil Nadu and Karnataka.

Each had an entirely different cause and not all erupted in violence. But they had one common factor: resistance to strong, central authority.

By far the greatest challenge to that authority, however, is the most recent of India's regions in revolt: Punjab. Despite the present Government's firm intention *to find a political solution* to the problem, the situation has all the signs of an intractable sectarian conflict in which the extremists are, for the present, in control.

The problem is magnified because Punjab is India's richest state and it sits awkwardly *on the country's* border with Pakistan, inviting Indian accusations of foreign interference.

The situation, following Mrs Gandhi's decision to storm the Golden Temple in Amritsar last year, followed by her own assassination, and the unrest which followed, appeared to be taking a turn for the better in the first week of May.

Militants

Mr Gandhi's urgent efforts to defuse the crisis and his willingness to make concessions to the Sikh community in an effort to shore up the flagging support for the moderate Sikh political party the Akali Dal, appeared to be paying off.

Then came the wave of bombings on May 10 in and around *New Delhi in which* more than 90 people died. This closely followed a move by 90-year-old Joginder Singh, father of Sant Jarnail Bhindrawale, leader of the militants, inside the Golden Temple when it was stormed by Indian troops last June, to form a "new" Akali Dal. Reviled for "surrendering" to Indian troops at the Golden Temple and increasingly isolated as the radicals gained the upper hand in Punjab Sant Harchand Singh Longowal, the leader of the moderate Akali Dal, resigned. This brought out into the open the deep split between the hawks and the doves in the Sikh community.

Hopes for a solution based on the five points originally demanded by the Akali Dal, which included a transfer of Chandigarh as capital of Punjab, were dashed. Even a decision by Mr Gandhi to appoint a commission to look into the slaughter of Sikhs in Delhi after his mother's killing failed to blunt growing demands for full-blown autonomy for Punjab.

Although Longowal remains in force with considerable support among moderate Sikhs, the chances of a quick settlement are slim.

Strong measures to combat violence

MR RAJIV GANDHI, India's new Prime Minister, has decided to tackle one of India's most deeply-rooted *problems with all the enthusiasm of youth.*

The problem — communal violence which results from India's divisive caste system — was thrust upon him when a political ploy, aimed at securing more votes for his ruling Congress (I) Party in the state of Gujarat, backfired badly.

The divisive caste system

ALAIN CASS

The trouble in Gujarat flared when the incumbent state administration announced that it would increase the number *of* jobs and places at colleges automatically awarded to the so-called *scheduled castes* and *tribes*, regardless of merit, by a whopping 18 per cent. This, despite the fact that *the previous quota* of jobs and places reserved for them—31 per cent—had not been fully taken up.

Under India's constitution a certain number of political economic, educational and social benefits are reserved for the country's estimated 154m lower castes, such as the *harijans* or "*untouchables*," and "backward" tribes. This is because, under the rigid caste hierarchy which determines the advancement of many Indians the higher castes exercise a powerful hold over the levers of power and use these to perpetuate their ascendancy.

This positive discrimination *operates in most areas of life*, including the Indian Parliament where 119 out of 542 seats in the Lokh Saba or Lower House are reserved for Scheduled castes. The same system operates in India's 22 State assemblies. The founders of India's constitution saw this as the most effective way of giving the country's disadvantaged people a massive leg-up in the years after Independence.

The idea, which was always resented by many upper castes who saw their historical advantages being eroded, has met with increasingly stiff opposition as some so-called backward classes, taking advantage of the provisions, have significantly improved their positions.

The result is that in some places, such as Gujarat, upper castes *such as the Brahmins* (mostly civil servants and officials) and Patels, the largely landed, wealthy classes, have found themselves being steadily pushed out of positions of influence and prominence.

Consequently, when the state government decided to make an even greater number of opportunities available to the backward castes just before the assembly elections, there was a predictable explosion which resulted in *months of communal* violence.

Mr Gandhi has now stepped in and asked state governments not to make any further changes to existing quotas. He has also asked *for views on how the* existing provisions can be changed to make them more equitable.

One suggestion being examined is that a certain section of those catered for under the reservation clause should be required to pass a means test based on *their* earnings or wealth before being given special privileges. This would not apply to the so-called Scheduled Castes and Tribes but to what are known as "other backward classes." These constitute around 10 per cent of India's 750m population. Many have managed to pull themselves up since Independence and do not need special help.

The issue is one of the most volatile in Indian politics and is liable to trigger off widespread unrest, unless carefully handled. But the need for a re-assessment of the present system is widely supported.

What *Mr Gandhi will have to* do is steer a line between giving in to pressure from the better-off and dismantling a provision which many Indians agree is the only way to overcome the divisive and dangerous prejudice of the most entrenched class system in the world.

Change of emphasis at primary levels

Reforms in education

K. K. SHARMA

New Delhi

INDIA'S new education policy is now being formulated and will be implemented from the 1986-87 academic year.

What shape it will take will depend on experts now working on the policy, but the tasks are enormous. At the primary school level alone, Mr K. C. *Pant, the Minister of Education*, has announced that 24m children will be given "formal *education*" in the next five years.

This suggests a change in *emphasis because, although Mr* Pant has stated that the Government does not intend to modify its declared *policy to* provide free and compulsory primary education, the accent is clearly shifting.

While 24m children will receive "formal education" in primary schools, another 39m will have what observers have concluded is "informal education" simply because existing facilities to cope with all the school-going children are hopelessly insufficient.

This gives some idea of the gigantic task ahead of the *Government in giving effect to* Mr Rajiv Gandhi's plans for reforms in education which he *considers essential to propel* India to its proper place in the 21st century and to increase employment *opportunities*.

Mr Gandhi has spoken of the needs for reform and has made it clear he will insist on priority being given to such a vital subject. Apart from broad guidelines in his public statements, the job has been left to experts.

Mr Gandhi's own remarks suggest that he wants "*to use* on a large scale the new communication technology in our school system" and that "delinking of degrees from jobs under the Government is under *active consideration*."

Steps are being taken, he says, to establish an "open university" to *bring higher* education within easy reach of all.

"I would strongly emphasise education's organic link with the productive forces of society. We shall reorganise vocational education to align it with industry, agriculture, communications and other productive sectors of our economy," he says.

As yet, there are few indications on how these aspirations will be *given effect. The* Government has made a start by a major increase in funds alloted to education. The provision in the budget for 1985-86 has been increased to Rs 5.04bn from Rs 4.13bn in the previous year. This is expected to rise further when the new education policy is implemented from next year.

Vocational education is to be given importance because in the past 37 years there *has* been a massive rise in the number of "educated unemployed." There were some 2.13m graduate and post graduate jobseekers on the live registers of employment exchanges at the end *of last* year.

Challenges for new Prime Minister

CONTINUED FROM PAGE 1

pick up quickly if a target of 5 per cent annual economic growth set for the next five-year plan of 1985-90 is to be achieved.

The World Bank's annual report on India, completed last month, warns that exports need to grow by 7 to 9 per cent in the same period instead of the current 4 to 5 per cent to cover imports and international debt repayments. The report called this a "strained but manageable scenario," but added that there was a risk of India missing its targets and having to fall back to "low and less efficient growth patterns."

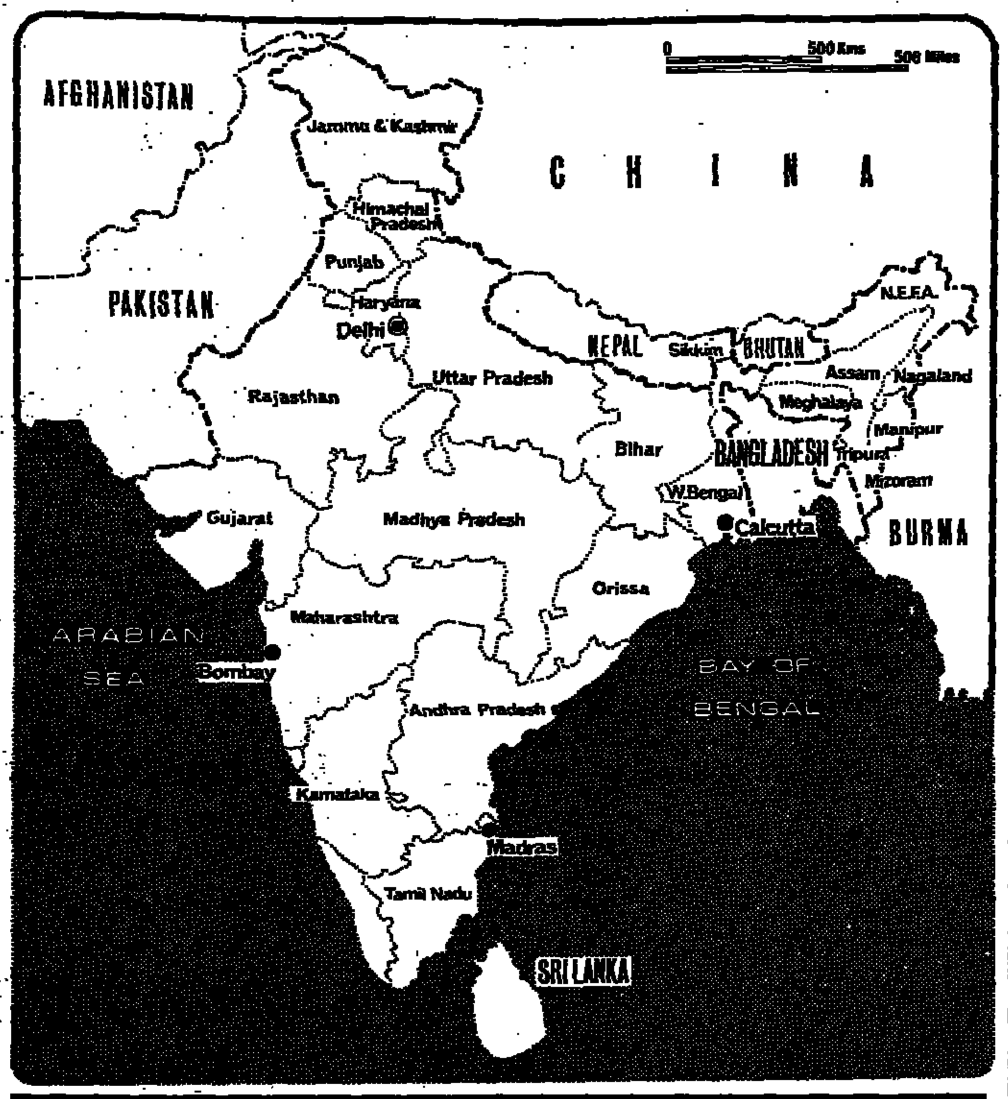
Unrest

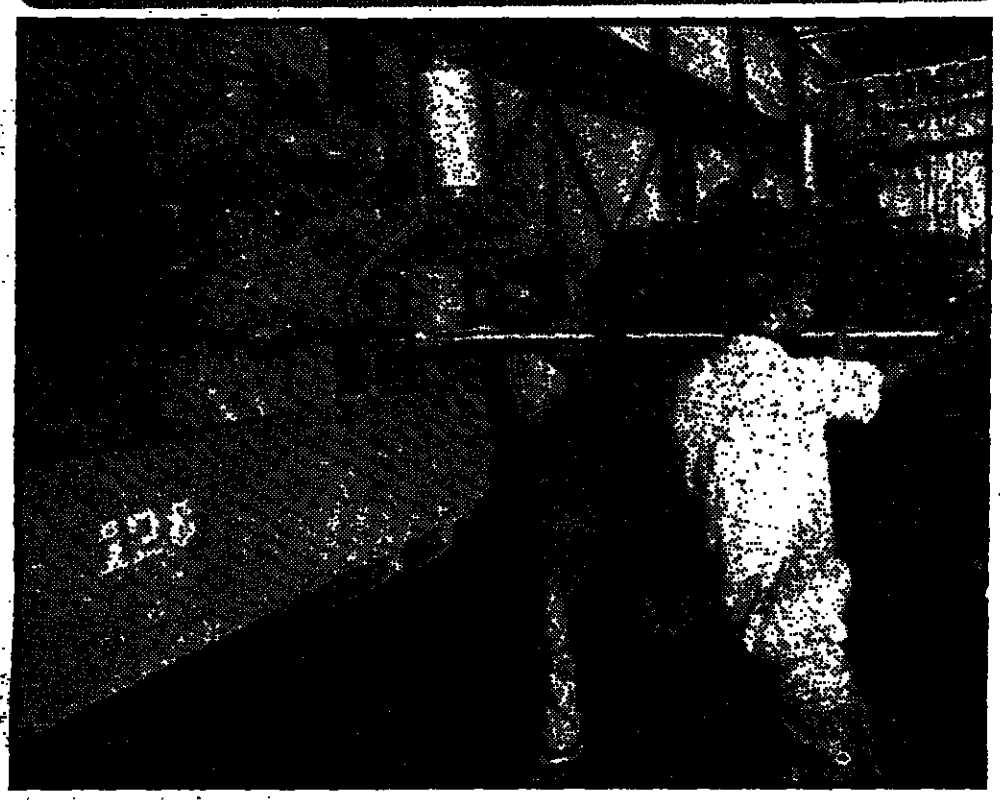
But while there might be economic problems in the future, it is India's communal unrest that is causing most concern and is diverting Mr Gandhi's attention away from economic subjects.

The worst situation is the Punjab which is proving difficult to solve and is posing a possibly long-term terrorist threat.

Assam and other remote north-eastern states suffer regular unrest and the violence in the prosperous western state of Gujarat underlines the problems caused by the country's deeply-embedded caste system and by Hindu-Muslim tensions.

Mr Gandhi says his priorities are curbing population growth, making India more homogenous, and reducing poverty with economic and industrial development. Within those broad aims, a solution for the Punjab and record export growth are the top priorities.





The Bangalore assembly line of Bharat Earth Movers (right). Mr Gandhi is freeing industry from many controls so they can react to market pressures.

Rajiv Gandhi appears to want few major foreign policy changes, but his style is more gentle than that of his late mother.

A more pragmatic approach

India and the wider world

JOHN ELLIOTT
New Delhi

MR RAJIV GANDHI is setting out to win the international respect for himself accorded to his late mother, Mrs Indira Gandhi, as Prime Minister of India and also as the leading statesman of South Asia and the current chairman of the non-aligned movement.

After a successful tour of the USSR last month, he is this month visiting France and the U.S. to launch Festivals of India which are similar to the cultural and other events staged in the UK in 1982. He is also visiting Egypt, Algeria and Switzerland (to address the International Labour Organisation).

In October, he will go to the Commonwealth Heads of Government Meeting in the Bahamas and the United Nations 40th anniversary celebrations in New York, probably with a brief visit to the UK on the way.

Mrs Gandhi was an aggressive but quietly charismatic politician who alternately charmed and aggravated other international leaders as she proudly led the world's largest democracy and one of the most important developing countries. She ended her life with a possibly higher reputation abroad than among her own urban electorate (who were often more sceptical of her domestic policies than India's rural masses).

Mr Gandhi, who is also Foreign Minister, is showing signs of being more gentle and pragmatic in his approach, especially in South Asia where India's neighbours, such as Bangladesh and Sri Lanka, felt constantly bullied by his mother.

Key issues

But this does not mean that there are any major basic changes in India's approach to its foreign policy which is based on three inter-linked issues:

● A distrust of Pakistan, its muslim neighbour, and opposition to U.S. activities there, specially the supply of advanced defence equipment following the Russian occupation of Afghanistan. India would obviously feel more secure with both super powers out of Afghanistan and Pakistan.

● Improving relations with the South Asian neighbours which is described as Mr Gandhi's highest foreign policy priority.

"We will be judged by how we get on with our neighbours," says Mr Romesh Bhandari, Foreign Secretary.

● Cultivation separately of relationships with the two Super Powers. The approach to each is "based on its own logic," says Mr Bhandari. The U.S. has helped by telling India it accepts India can have good relationships with both it and the USSR.

Lower down its scale of immediate priorities, but still important, is concern about super power activities in the Indian Ocean and about the security of India's northern border with China.

The easiest of all India's foreign relationships is with the USSR, as was shown during Mr Gandhi's visit last month when he finalised trade and other links, including a $1.2bn long-term credit, to take the two countries up to the next century.

The USSR is India's major arms supplier. India knows that the defence and industrial equipment it buys is often less modern and less efficient than is available from its other suppliers in the West. But the purchases from Russia are cheap and provide the basis for its defence forces and are a useful supplement for its industrial development.

Mr Gandhi has always spoken more warmly about the USSR than the U.S., despite his own personal fascination with high technology which inevitably draws him to the U.S.

But hopes in the West that he would tilt the balance significantly away from the USSR and towards the U.S. have been dashed.

"With the USSR we have a very strong friendship. They helped us in building our industries and they have stood by us at times of need. The U.S. has let us down on a number of occasions — the 1971 Bangladesh war; 1965, Pakistan, and on one or two defence items where we spent a very long time talking to them and ultimately they put conditions that were just not acceptable to us," said Mr Gandhi in a recent interview with the Financial Times.

On Russian television he talked about India and the USSR's similar views on subjects such as "colonialism, imperialism, the struggle for freedom, and the right to self-determination." He added that "we will strengthen our ties with the USSR and make them even closer."

Contrasts

While the USSR has managed its relations with India skilfully for many years, the U.S. has mishandled them.

"India has no place in the global strategy of the U.S.," said Mrs Gandhi, last year, reflecting anger and frustration at the way the World Bank's concessionary lending was being cut-back and the way the U.S. was arming Pakistan with weaponry that India claims could never be used in the mountainous border with Afghanistan but could be used on its border plains.

The U.S. is now trying to start improving the relationship. It has been preparing the ground for Mr Gandhi's visit with an endless stream of dignitaries passing through New Delhi.

It is also implementing a memorandum of understanding on computer and other high technology sales, having overcome some of its fears of leakages of technology through India to the USSR.

Talks are taking place on possible defence sales including Hercules aircraft, some army weaponry, and electronic equipment. But India distrusts the U.S., fearing it will cut off supplies and spares in the future. A memorandum of understanding that would cover contentious areas such as spares supplies, safeguards and security risks, is also being discussed.

But Mr Gandhi's main aim is to persuade the U.S. to be tough with Pakistan over its suspected development of a nuclear weapon. On that, he may have some success. But he will fail in his other aim—to persuade the U.S. to stop arming Pakistan with advanced weaponry which will therefore remain a constant irritant to Indo-U.S. relations.

Handshakes in the Kremlin: Mr Mikhail Gorbachev, General Secretary of the Soviet Communist Party, welcomes Mr Rajiv Gandhi during his recent visit to the Soviet Union. Mr Gandhi has always spoken more warmly about the USSR than the US

India worries over Pakistan's 'relentless pursuit of nuclear capability'.

Facing up to the nuclear 'threat'

FOR THE first time ever, the usually bland annual report of India's Defence Ministry this year raised the controversial issue of nuclear weapons on the sub-continent.

A single sentence refers to India's "concern" at Pakistan's "relentless pursuit of nuclear capability with the assistance and connivance of certain countries." This, says the reports, adds a new dimension to India's security environment, implying that something should be done to meet the threat.

Concern over defence issues

ALAIN CASS

India's official stand remains that the country will not manufacture nuclear weapons. This position has been reiterated for the past 20 years by succeeding leaders including Mrs Indira Gandhi, Mr Morarji Desai, Prime Minister in the Janata Government in the late seventies and, more recently, by Mr Rajiv Gandhi.

Nevertheless, the raising of this issue by Mr Narasimha Rao, the Defence Minister, in his annual report, points to a new development: the first official hint that the Government of India is seriously willing to examine its nuclear option.

References have been made to it before by Foreign and Defence Ministers. Mr S. B. Chavan, the previous Defence Minister, told the Lok Sabha in March, 1984 that Pakistan had acquired the capability of manufacturing nuclear weapons and India would undertake "appropriate" measures. But they have not carried the full imprimatur of the administration until now.

Argument

India's small but powerful pro-nuclear lobby predictably seized upon Mr Rao's reference to Pakistan in the annual report and called for an Indian bomb. Those who argue for the nuclear option do so on two grounds:

● First, that India needs a nuclear arsenal if Pakistan, which is universally regarded as the country's principal security concern, is making its own.

● Second, that a country which accounts for one sixth of humanity should start behaving like a world power if it is to be taken seriously. This, they argue, would accord with Jawaharlal Nehru's belief that, in due course, India should take its place alongside the U.S., the USSR and China in the world community.

If Pakistan were to acquire nuclear weapons or even if it were to set off a nuclear explosion the pressure on the Indian Government to go down the nuclear road would be almost irresistible. Until that happens, however, India is unlikely to deviate from its stated course.

What it may do, however, indeed what it may have already begun is a strategy of ambiguity in which, by encouraging a debate about India's nuclear option through hints and nods, New Delhi serves notice that, if the circumstances arise, it might reverse its present no-bomb policy.

"After all," says one defence expert, "that is precisely what Pakistan is doing. It's keeping the world guessing. It may be a bluff, it may not. But who would be willing to call it?"

Mr Gandhi is, meanwhile, pursuing the strategy of diversifying India's source of arms supplies to supplement the country's substantial home-made weapons and components.

India's internal defence programme consists of 34 ordnance factories and eight other public sector units—such as Hindusthan Aeronautics which assembles Soviet, Anglo-French and indigenous aircraft—with a total annual turnover of over Rs 22bn.

The issue of India purchasing American weapons has been actively debated over the past few months and will be a central topic when Mr Gandhi visits Washington later in June.

Mr Gandhi's accession to power has given the two countries an opportunity to reassess their relations, which have been difficult, partly because of American backing for Pakistan and partly because of India's close relations with the Soviet Union.

Mr Gandhi is expected to formally conclude an agreement while in the U.S. which would permit India to purchase highly advanced American technology. In May Mr Fred Ikle, U.S. Under-Secretary for Defence, held talks with senior officials in Delhi about India's requirements which include anti-tank missiles, artillery, C-130 transport aircraft, small arms and electronic surveillance and guidance systems.

India also signed an agreement with Italy for research and development for electronic defence products as part of the armed forces efforts to modernise its infrastructure.

The Indian Navy is likely to purchase 11 Sea Harrier jump jets at a cost of over £100m—possibly accompanied by the British Sea Eagle missile—despite the row over India's decision not to go ahead with the purchase of Westland helicopters.

In the past five years India has also signed deals to purchase 120 Anglo-French Jaguar aircraft, 40 French Mirage fighters, West German submarines and British Sea-King helicopters.

Despite these attempts at diversification, however, India is still expected to rely chiefly on the Soviet Union for its weapons inventory.

Moscow has offered India the advanced MiG-29—the newest fighter in the Soviet inventory—which Indian pilots regard as more than a match for the U.S. F-16 delivered to Pakistan as part of a \$3.6bn arms and economic aid deal.

About 80 per cent of India's military equipment comes from the Soviet Union, and defence specialists in India have shown some concern at the Government's diversification programme. Given India's huge investment in Soviet systems, a radical departure at this stage seems unlikely.

Critics of diversification also argue that, in the event of a war with Pakistan, only the Soviet Union could be relied on to resupply India unconditionally.

● PLO chairman Yassir Arafat and Prime Minister Rajiv Gandhi link hands and wave to crowds at Delhi Air Force base when Arafat arrived for a non-aligned foreign ministers' conference. Below: troops on patrol in Bombay during a curfew

Five reactors now in operation

INDIA'S NUCLEAR programme is slowly but successfully edging towards the point where it will begin to make a significant contribution to the country's chaotic electricity supplies, using almost entirely Indian technology.

"For the past 15 years it has been a prototype activity. For the next 15 years we will be industrialising, and after the year 2,000 it will be fully industrialised power production," says Dr M. R. Srinivasan, chairman of India's Nuclear Power Board.

Nuclear power programme

JOHN ELLIOTT
New Delhi

The board was set up last August by the Department of Atomic Energy to build and operate nuclear power stations.

The target for the year 2000, regarded as over-ambitious by many foreign experts, is a total of 10,000mw nuclear capacity to produce 10 per cent of the country's electricity supplies compared with 3 to 4½ per cent now.

India's nuclear programme may become more controversial both domestically and internationally if the U.S. fails successfully to ensure that Pakistan is not developing a nuclear weapon. Mr Rajiv Gandhi warned last month that India would have to decide what action to take if Pakistan did produce a weapon.

Although officially this remark was intended to indicate a re-appraisal of India's relationship with both the U.S. and Pakistan, there was also a hint that India might also have to reconsider its own nuclear policy. In 1974, India staged what it called a "peaceful nuclear explosion" in the western Rajasthan desert and says it has developed and tested nothing since then.

Demands

But there could well be a surge of popular and political suport in India for a revived nuclear weapons programme if Pakistan appears to be presenting a nuclear threat.

After years of problems in developing peaceful uses for nuclear energy, India now has five reactors totalling about 1,000mw in operation and another five are planned to bring the total to nearly 2,200mw by 1990. The target for 1995 is just over 4,400mw to include two more reactors at Kota in Rajasthan and two more in the southern state of Karnataka.

All the existing reactors, and those planned to 1990, are 220 to 235 Mw, but 500 Mw reactors are now being developed, with two planned for un-named sites in 1990-95.

Both the units at India's first station at Tarapur north of Bombay were U.S.-designed boiling water reactors and the rest are pressurised heavy water reactors.

A 15 Mw fast-breeder test reactor is to be opened in Madras in the autumn and the Government has agreed, in principle, to set up a technical development team to take India into fast breeder technology with a 500 Mw reactor for the late 1990s.

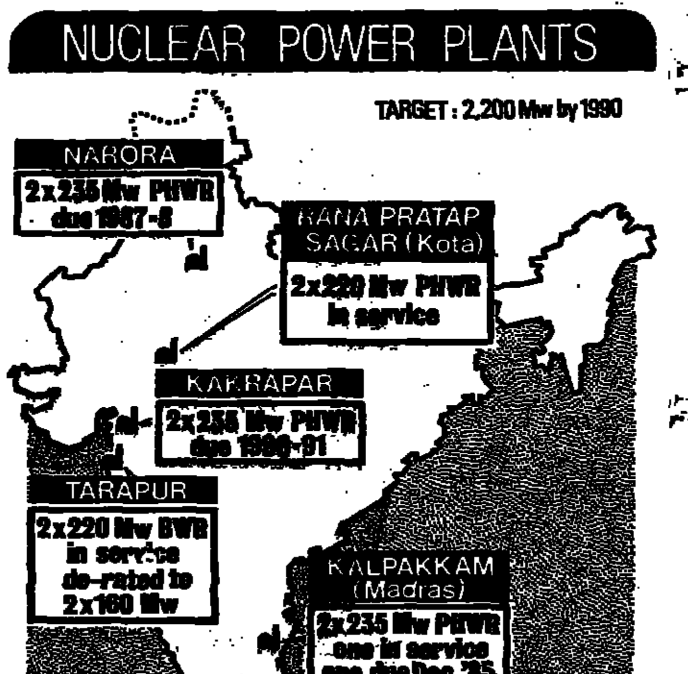
A decision will probably be made later this year whether to speed up progress towards the 10,000 Mw target by accepting an offer of a nuclear station which the Soviet Union has been pressing India to take for some time.

Some leading nuclear scientists would like the Russian offer to be refused, arguing that India has now developed sufficient indigenous know-how to be able to dispense with foreign help.

Those in favour of the offer are winning considerable political support by arguing that such a contribution to the reduction of India's electricity shortages should not be turned down.

There may be a problem because Russia would have to agree that only limited nuclear safeguards would be introduced. India has never allowed general inspection of its nuclear facilities.

This Indian policy on safeguards dogged the country's developments in the 1970s when help and supplies from the U.S., Canada and elsewhere dried up following the Rajasthan desert explosion.



Now India is approaching the position of being self-sufficient. It has not needed to respond to a U.S. offer made last year to arrange the supply of nuclear spares through its Western allies. Dr Srinivasan says that "nothing of significance" has been imported during the past two years for Tarapur, which felt the brunt of the 1970s boycott.

Safeguards

With limited safeguards arrangements, France has been selling India enriched uranium and is offering more help. Germany has in the past helped with spares for Tarapur. Russia also supplies heavywater for periodic topping up of the second reactor at Rana Pratap Sagar, near Kota in Rajsthan.

India now has its own heavy water for its reactors at Kalpakkam near Madras in Tamil Nadu.

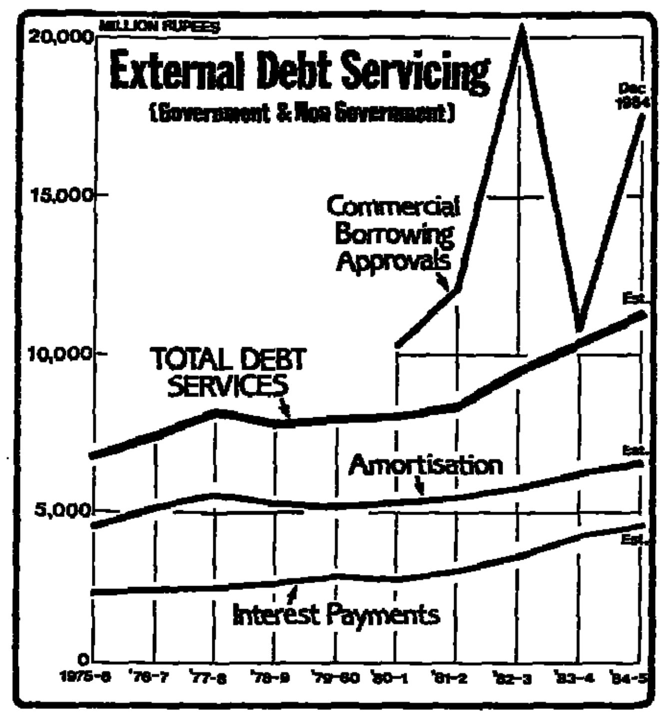
Although many of the reactors have been working at far from full capacity for many years, Dr Srinivasan says that "our units are beginning to do well." Capacity factors of just over 64 per cent were achieved at Kota in 1983-84 and of 72 per cent during 1984 at Kalpakkam during the first year of operation of Kalpakkam's first reactor.

Tarapur has been de-rated from 230 Mw to 160 Mw and is working at 95.7 per cent of the de-rated capacity or 76 per cent of the design capacity, according to Dr Srinivasan. These figures compare with international standards of 70 per cent load-capacity for economic viability.

Electricity prices from the nuclear stations, located in the west and south of the country, average 37 paise (about 2p) per kilo watt hour. This is about 25 per cent less than coal-fired power stations in the same areas because of the cost of transporting coal from mines in the north-east.

So India still has a long way to go before its nuclear power programme is an economic success. In the meantime it is proud of its indigenous technology and that it is far further ahead than its two neighbours Pakistan and China.

"The Triumph of Labour"—a statue in Madras. India's Government is making bold plans for industrial modernisation and for boosting efficiency. The aim is to increase the annual output of industry by 7 per cent—a target which many independent observers regard as over-optimistic. There are also doubts about how quickly the drive for efficiency can be achieved, particularly in the public sector



Challenge is to maintain rate of growth

Creditable performance by economy

PHILIP STEPHENS

ECONOMIC GROWTH of 5 per cent a year on average since 1980 is a creditable performance even for a developing country. The challenge for Rajiv Gandhi's India is to achieve the same for the rest of the decade.

The mood in government, and among businessmen and economists is at present one of optimism. But as ministers finalise the seventh five-year plan for 1985-86 to 1989-90 some of the risks and constraints are becoming painfully apparent.

The tone for the Plan, which officially started in April, was set in Mr Gandhi's first budget a month earlier. The emphasis was on tax reforms (and cuts), industrial liberalisation, and, above all, modernisation and efficiency.

Competitive

The promise was that a nation which has so far invested vast resources in self-sufficiency at almost any cost would undertake a second industrial revolution to make it competitive in international markets.

The means will be some dismantling of the protectionist cocoon which has so far shielded Indian industry from the rigours of competition, domestic and international, and left it with a reputation for high prices and poor quality.

There will also have to be some slimming of the huge bureaucracy which many economists believe is stifling the public sector; and a much better return from investment in state-run enterprises.

Mr VP Singh, the Minister of Finance and Commerce, is under no illusions that the success of the Government's strategy will depend on a decisive improvement in India's dismal export performance.

Liberalisation of the import regime, the bunching of commercial debt in the late 1980s, the repayments due on a SDR 3.9bn loan from the IMF and reduced aid, together hold out the threat of a balance of payments crisis unless exports improve.

"We know there is a dilemma . . . we are carrying out an exercise to identify selective export 'thrust' areas. Fiscal and industrial policies will then be co-ordinated to help the process," Mr Singh said in an interview with the FT.

The World Bank, which recently forecast that India may have to boost its commercial borrowing from around $1.2bn a year now to $5bn by 1990 if it is to meet its growth targets, suggests that annual export growth needs to double in volume terms from the present 4 per cent.

The advocates of liberalisation argue forcefully that the only way such targets can be achieved is if Indian industry is exposed to greater domestic and foreign competition.

For them the key measures in the Budget were the raising of the company asset threshold under the Monopolies and Restrictive Trade Practices legislation, which will allow companies to expand to an economic size; delicensing of 25 industrial sectors to foster competition; and further import liberalisation.

"We must bring improved productivity into the framework of industrialisation. . . at the same time the public sector cannot be treated as a spoilt child," is the comment of Dr Abid Hussein, a member of the Planning Commission and one of the architects of the liberalisation programme.

The finance minister promises further reforms: the three-year trade policy announced in the Budget, designed to provide a stable background for business planning, will be complemented by a long-term fiscal policy in the autumn.

He made it clear, however, that there would be no wholesale dismantling of import barriers and that liberalisation would focus on imports of raw materials and intermediate goods and a few selected capital goods. The pace will depend on export performance.

"Some protection is needed but the barriers should not be so high that there is no competition at all," he said.

There are other constraints. The negotiations on the details of the 7th plan have revealed a substantial "resource gap" which must be bridged if the 5-year investment target of Rs 1,800bn (£120bn) for the public sector is to be met.

Dr Manmohan Singh, the deputy chairman of the Planning Commission (Mr Gandhi is chairman) insists that these resources must be generated within the public sector since there is only limited scope for increased private saving or higher tax receipts.

India's domestic savings ratio has risen to a remarkable 23 per cent—comparable to that of Japan—and the forecasters are suggesting a further increase to 26 per cent. The impact on growth, however, has been partly offset by a deterioration of the capital-output ratio.

Dr Singh acknowledges that there are some risks with the Government's strategy—on the domestic front because of the inflationary potential of higher budget deficits and externally because of the trade deficit.

"I am not pessimistic about raising the resources but it does involve risks. Then all plan-making involves some calculated risks," he commented.

Hardening

Even if exports perform well, India's debt service ratio—the proportion of debt repayments to exports—is likely to rise significantly by the end of the decade to around 20 per cent from the present 14 per cent because of a hardening in the terms of borrowing.

Over the short-term, however, the risks are tempered by a fairly comfortable short-term foreign exchange position. The sharp rise in remittances from Indians living abroad has more than offset a widening trade gap (close to Rs60bn or £4bn in 1983-84) and foreign exchange reserves have risen to Rs70bn (£4.6bn).

With growth in the Middle East slowing, however, India cannot rely on remittances continuing to climb, while Mrs Gandhi's assassination and the continuing communal troubles have so far thwarted hopes of a major increase in tourist income.

Much will also depend on further growth in agriculture. The huge rise in foodgrains production since 1979 has been one of the remarkable achievements of the Indian economy.

Though little changed from the previous year, output of more than 150m tonnes of foodgrains in 1984-85 was 15 per cent higher than four years earlier and has allowed India to actually export about 1m tonnes.

The healthy stocks position means inflation should not be so sensitive to the vagaries of the monsoon. And despite some criticism of the price rises which followed this year's Budget the finance minister says he is confident wholesale price rises will remain in single figures.

The plan for the next five years is to maintain annual growth of between 3.5 and 4 per cent, with particular emphasis on crops which could significantly cut the country's import bill — edible oils imports for example, are currently costing the country about Rs800m a year.

For industry the plan is for an annual increase in output of 7 per cent, a target which many independent observers regard as over-optimistic.

Oil production, which provided a major boost to growth during the Sixth Plan (rising from 10.5m tonnes in 1980-81 to around 30m tonnes in 1984-85) is expected to increase only slowly.

What the Planning Commission calls a conservative forecast, based on no major new finds, suggests output of 37m to 38m tonnes by the end of the Seventh Plan. On that basis the country's self-sufficiency would fall from 70 per cent to 60 per cent.

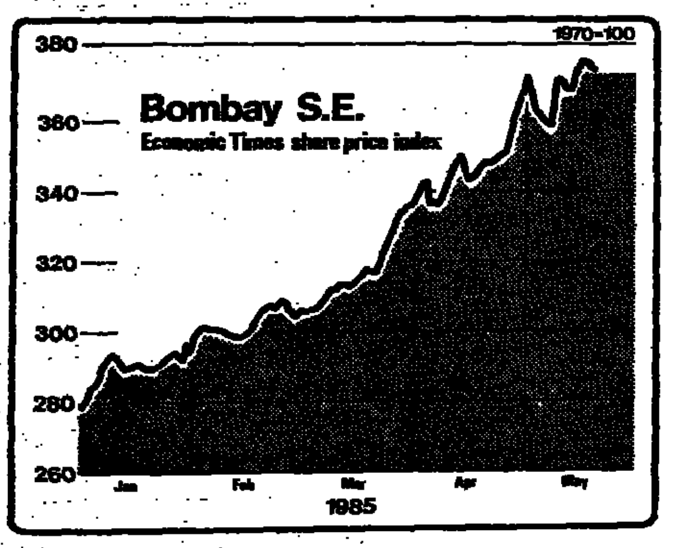
Efficiency

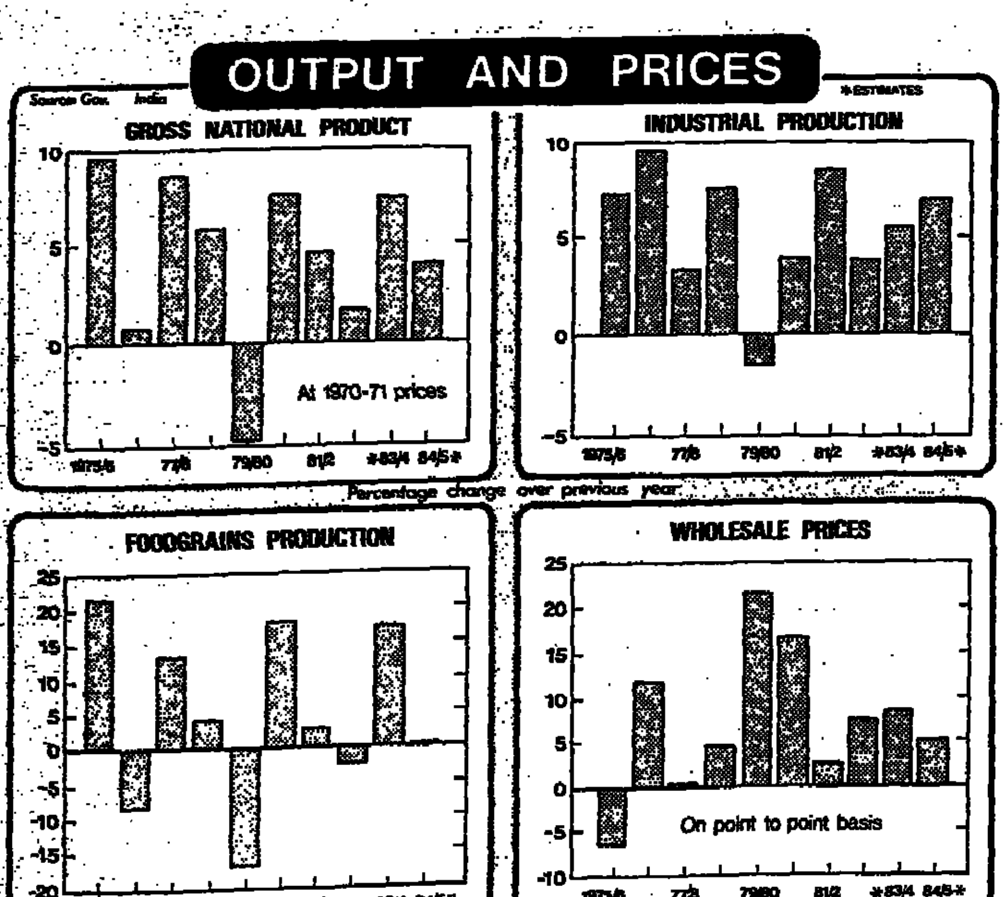
There are also doubts over how quickly the drive for efficiency in the public sector, and freer competition in the private, can be translated into higher output.

A shortfall in electricity generation will act as a significant break on industrial expansion.

The Government may also face political constraints if the liberalisation policy does not yield quick results. Some of the older guard of the Congress I party have already signalled their resentment at what they see as a policy favouring the private sector and the rich.

The finance minister was at pains to stress the continuity as well as innovation in the current strategy, particularly in relation to the Government's anti-poverty programmes. The eradication of poverty, he insisted, must remain the central economic issue.





PROFILE: VISHWANATH PRATAP SINGH, Finance Minister

Policies based on reality

THE MAN chosen by Mr Rajiv Gandhi to be his Finance Minister and to spearhead his attempts to shake up the Indian economy is reputedly "the cleanest politician" in the ruling Congress I party.

He is Mr Vishwanath Pratap Singh, a 51-year-old politician from Allahabad, the Gandhi's home seat in the northern state of Uttar Pradesh. There he is a scion of the princely and wealthy Manda family and a member of the high Rajput caste (who, like the Sikhs, use Singh in their names).

He brings to his job a hard-working modesty and a deep awareness of the need to try to balance the vast and widening disparities of wealth that exist in India.

He was appointed Chief Minister of Uttar Pradesh in 1980, but two years later became the first-ever Chief Minister to resign voluntarily when he failed to fulfil a promise that he would clean up the state's dacoits (armed bandits) within a promised period.

Early in 1982 the late Mrs Indira Gandhi appointed him Minister of Commerce. He only stayed in that job 18 months but made a reputation that has catapulted him into the joint posts of Finance and Commerce Minister.

He cleaned up the Commerce Ministry, banishing often-currupt company agents and industrialists from anywhere near his office. He improved the organisation, introducing computerisation. He was sorely missed by his aides when Mrs Gandhi sent him back to Uttar Pradesh after 18 months to head the Congress I party machine and prepare for what turned out to be Mr Gandhi's great general election victory.

Asked whether such switches of job are not rather strange he comments: "Our basic profession is politics and it is all politics, here or there. It was a wonderful experience to work as a party chief at the grass roots."

"Our policy comes not from text books but from three points of hard reality — rupee resource constraints, foreign exchange constraints and poverty," he says.

"Poverty has led to a perception of an egalitarian society. Politically, it would not be stable to have too many and too wide gaps in income distribution. We do have such gaps and different economic layers, and that has to be managed politically.

"To raise 93 per cent of our expenditure internally—to raise it by taxes from the people — and still have a ballot box in India — needs a lot of political skill and is no small achievement."

John Elliott

Budget measures fuel the boom

Stock market euphoria

PHILIP STEPHENS reporting from Bombay

"IT'S LIKE having a British Telecom issue every week." Well, not quite, but the *analogy*, drawn by one of Bombay's enthusiastic young stockbrokers, underlines graphically the *euphoric mood of India's stock*-markets since the beginning of this year.

There has been a surge in the number of capital issues, heavy over-subscription of many equity offerings, and an around 30 per cent rise in the country's main market in Bombay.

Part of the explanation is found in the anticipation of and subsequent reaction to Rajiv Gandhi's first Budget.

The corporate and personal tax concessions, industrial liberalisation measures, and the emphasis on modernisation have *been widely interpreted as fore*-shadowing a more vibrant and profitable private sector.

The Government's apparent *commitment to a flourishing* equity market was further demonstrated by a number of measures aimed at making it *easier for companies* to raise capital.

Better return

Cumulative *convertible* preference *shares* have been allowed for the first time, the interest rate ceiling on convertible debentures issued by small companies has been raised, and provision made for the free transfer of shares in public companies.

"The Government is encouraging the private corporate sector to expand and diversify . . . and people are seeing that the stock market offers a better return than the banks," comments M. R. Mayya, the executive director of the Bombay stock exchange.

The boom, though probably exaggerated by a fair amount of speculative "froth" is not simply a reflection of the private sector's honeymoon with Mr Gandhi.

The last decade has been marked by a significant widening of interest among Indian investors in equities, kindled *initially by the 1973 Foreign* Exchange Regulation Act which forced foreign companies to dilute their stakes in Indian companies.

The process has accelerated since 1980, with the encouragement of both the Reserve Bank and the Government. In 1982, for example, the authorities raised the interest rate ceiling on non-convertible debentures to 15 per cent and introduced a repurchase facility for small holders.

The result has been that these debentures now account for about two-thirds of the total capital raised on the equity markets each year.

Four new stock exchanges have been set up in as many years bringing the total in the country to 13.

The growth in the market even before the Budget is shown in the rise in authorisations for capital issues in the year ended March 1985. Preliminary figures indicate that the controller of capital issues gave the go-ahead for over 700 companies to raise around Rs 20bn (£1.3bn), double the amount in 1983-84.

The state-sponsored Unit Trust of India has done much to spread the share ethos among middle-income investors. It now boasts 1.7m unit-holders and its canny chairman, M. J. Pherwani, has even appointed fertiliser salesmen as agents for the units in rural areas.

The markets' buoyancy and a *number of tax concessions* have also stirred the interest of non-resident Indians, who have been significant investors in recent issues.

Their holdings are restricted, however, by the provision that only 5 per cent of any new issue can be taken up by non-residents and by the 1 per cent ceiling for individual holdings in any one company.

It is those rules and the well-publicised battles of businessman Swraj Paul which have focused the attention of non-*residents on the stakes in* Indian companies held by foreign investors. A number of takeovers have resulted.

Cynics in the market point out that these overseas holdings also provide a useful channel for black money, and for the laundering of undeclared cash.

Whether the loophole will remain is likely to depend on the outcome of the Indian Company's Law Board's current deliberations on Mr M. R. Chhabria's attempt to buy a 38.7 per cent stake in Shaw Wallace from Sime Darby of *Kuala Lumpur*.

There are other vehicles for non-resident Indian investment in the form of joint ventures set up by British and Indian merchant banks and brokers.

Conservative

Hill Samuel has linked up with Champaklal Investment (CIFCO) which offers a range of broking and advisory services. Industrialist Ashok Birla has established two Jersey-based mutual funds in co-operation with S. G. Warburg to channel non-resident funds into both the Indian and international equity markets.

The perception that the current boom marks India's entry into the modern financial world should be hedged, however, with an appreciation of both the highly-regulated and the relatively insophisticated nature of the market.

The over-subscription of many recent issues—5 or 10 times is not uncommon and the record is 159 times—is as much a function of the conservative pricing insisted upon by the controller of capital issues as the market's enthusiasm for new companies.

Hence the British Telecom analogy: most issues are under-priced from the outset and anyone who secures an allocation is guaranteed a profit.

The exchange authorities often appear bemused by the pace of activity. The Bombay exchange, for example, was unnerved by the speed of the market's rise after the Budget and felt obliged to suspend trading in a number of key shares.

The Delhi and Calcutta exchanges announced massive increases in margins to temper what they regarded as unhealthy speculation.

There are other oddities from a Western point of view. New companies, without any track record, are allowed to issue shares for projects which have not yet started, in effect raising venture capital directly from the public.

There is little co-ordination between the various exchanges, which operate with different settlement dates, accounting, and legal procedures. One company may be quoted on two or three exchanges and the lack of cohesion provides an endless stream of arbitrage opportunities. One broker said that he had effectively given up acting for clients to concentrate on arbitrage.

Electronic system

Mr Mayya says that the main exchanges are planning to instal an electronic system to allow the *simultaneous* display of prices, but acknowledges that further co-ordination will be a long haul.

There are doubts about the depth of the market, which are dominated by the big state-owned investment institutions. These hold perhaps 30 per cent of all shares and tend not to trade actively.

The development of a secondary market is hampered further by tax provisions which deter individual investors from selling shares they have held for less than three years.

Broker Madhur Murarka, one of the few sceptics in Bombay these day, argues that the recent increase in turnover is misleading because much of the trading is done by a handful of speculators with only perhaps 10 per cent of transactions resulting in share transfers.

Mr Mayya, however, argues that the concept of portfolio management is gradually gaining ground, encouraged by the sustained marketing of brokers and merchant banks.

At the same time the growth of non-convertible debentures *could weaken the grip of the* state institutions.

Finally there is an underlying confidence that if Mr Gandhi is serious about modernising India's industry he will have to encourage a parallel development of its capital markets.

India's stock exchanges

(as at December 31 1984)

Exchange	No of companies listed	No. of stock issues listed: Equity	Deb/Pref	Bonds	Total
Bombay	1,295	1,445	332	377	2,154
Calcutta	1,862	1,890	303	121	2,314
Delhi	952	1,015	161	155	1,331
Madras	441	478	162	80	720
Ahmedabad	265	280	109	133	522
Hyderabad	120	124	41	29	194
Bangalore	203	221	68	32	321
Madhya Pradesh	43	43	11	8	62
Cochin	49	49	...	...	49
Pune	65	65	n.a.	4	69
Uttar Pradesh	436	435	...	24	459
Ludhiana	20	20	...	5	25
Gauhati	n.a.	n.a.	n.a.	n.a.	n.a.
All exchanges†	3,883	4,094	850	541	5,485

† Excludes double-counting of shares quoted on more than one exchange. n.a. Not available.

Source: The daily official lists of the stock exchanges.

The brisk trading floor of the Bombay stock exchange

Prudent approach will be maintained

PRUDENCE and caution are words that Indian ministers and officials cannot repeat too often in outlining India's *approach to commercial borrowing*.

Skilful, persistent and sometimes devious are the terms commercial bankers most frequently use to describe India's negotiating tactics.

Commercial borrowing

PHILIP STEPHENS

No matter how determined India is not to go the way of many other developed countries *in piling up debt with foreign* banks, it will have to place greater reliance on commercial borrowing over the next few *years*.

Even if it holds those borrowings to the minimum needed to finance its development projects its debt service ratio is likely to rise significantly by the end of the decade.

The problem is that an inevitable slowdown in concessional aid, especially from the World Bank, will coincide with the start of repayments on India's SDR 3.9bn loan from the International Monetary Fund.

At the same time a number of key development projects envisaged in the Seventh Plan will require substantial foreign exchange requirements.

The dilemma is highlighted by some recent projections from the World Bank. These suggest *that India can expect some* $8bn in concessional aid in the five years from 1985/86 (April-March), to 1989/90.

In nominal terms that is about the same amount as in the previous five years, but adjusted for inflation it represents a substantial fall.

The slowdown in aid will coincide with a sharp increase in the amount of foreign exchange that india will need to generate to meet its plan targets. The World Bank projection suggests that India will need to generate $87.2bn in the five years to 1984/85 to $143.6bn during the Seventh Plan.

In parallel, the "bunching" of existing commercial debt and IMF repayments is likely to push up debt servicing as a proportion of current overseas receipts from the present level of just under 14 per cent to more than 20 per cent by 1990.

It is a dilemma of which Mr V. P. Singh, the Finance Minister, is fully aware. He insists that there will be no major shift in the Government's policy towards commercial borrowing.

"India has been very prudent on the debt issue . . . we intend to follow that line," he said in an interview with the Financial Times. "We will have to rely on boosting our exports and foreign exchange earnings."

Mr Singh also acknow-*ledged that the industrial liber*-alisation policies designed to boost exports may initially result in higher imports.

The Government would have to draw a line between damaging development prospects by holding down vital imports and risking a debt crisis by letting commercial borrowing rise too quickly.

The emphasis though would remain on caution, while over *the short-term*, the Government could rely on the cushion provided by a substantial increase in foreign exchange reserves.

These currently *stand* at about Rs 70bn (£4,650m), up Rs 10bn (£660m) on a year earlier.

If India's *commercial* debt is going to rise it is equally clear that it will be very carefully "managed" upwards.

Most commercial borrowing is linked directly to projects which the Finance Ministry expects to generate foreign exchange resources either through exports or import-substitution.

The Ministry also maintains a tight grip on negotiations with lenders, firstly to keep the overall level of borrowing from rising too quickly and secondly to ensure that all deals are on the best possible terms.

"We do a full analysis every month of the debt position over several years," comments one senior official.

Commercial bankers acknowledge that the Indians are superb negotiators, wringing concessions up until the last moment before a deal is signed and capitalising on the competition between banks.

Debt crisis

There is no shortage of European, U.S. and Japanese banks eager to lend money. The explanation is that the bankers admire the Government's prudence and that few have much exposure to India.

The fine terms that India can command relative to other developing countries were shown in a series of loans last year.

Despite doubts among bankers about the long-term viability of its project, the National Aluminium Company raised $300m through a syndicated credit at a margin of ¼ per cent Libor for $200m and ¼ per cent over Libor for the remainder.

The terms of a $150m floating rate note for the State-owned Oil and Natural Gas Commission (ONGC) caused dismay in some banks, which insisted that it was impossible to make any profit on the deal.

India's negotiating skills have also been in evidence in preliminary contacts with banks on the $480m to $500m financing needed for Air India's planned purchase of six Airbuses.

According to bankers close to the negotiations the Government has been skilfully playing one bank off against another to get better terms, even before issuing its formal request for bids.

The state-owned investment institution, the Industrial Credit and Investment Corporation of India (ICICI), which regularly borrows abroad for on-lending within India has succeeded in maintaining fine terms by diversifying both between currencies and types of loan.

Loan maturity

India has not been successful, however, in persuading bankers to stretch the maturity of loans to 10 years from the traditional *six to eight years to help in* avoiding a further bunching of repayments in the early 1990s.

Projections for foreign bor-*rowing during the Seventh plan* have yet to be finalised, and officials stress that the actual amounts will depend crucially *on the performance of exports*.

Mr S. Venkataramanan, the Finance Secretary, says that authorisations will also depend on the ability of individual projects "to enhance the total earning capacity of the economy."

He adds: "The traumatic experience of Latin America has made us very cautious . . . . we are very concerned about maintaining our sovereignty."

Officials privately concede that the Plan implies higher borrowings than in the past few years, perhaps around $1.5bn a year until 1989-90. They completely reject, however, the recent suggestion by the World Bank that the targets for industrial development imply commercial borrowings as high as $5bn a year during the lifetime of the Plan.

As well as the Air India loan, the domestic airline, Indian Airlines, will need several hundred million dollars over the next few years, as will the Oil and Natural Gas Commission (ONGC) and the National Thermal Power Corporation.

ICICI and two other investment institutions, the Industrial Development Bank of India and the Industrial Finance Corporation of India are expected to raise loans over coming months.

Employment growth the priority aim

BECAUSE of difficulties in bridging a "resources gap" of around Rs 300bn, the details of the seventh Five-Year Plan for the period 1985-90 will not be known until late July when its draft is due to be published. But the *government has promised that it will not be heavily* pruned and that the overall outlay will remain at Rs 3,200bn.

This is by far the heaviest investment ever envisaged for any five-year plan period and makes the Seventh effort the most ambitious ever. This is for both government investment (planned for Rs 1,800bn) and the private sector which has been given a major role for the first time and will be asked to share nearly 40 per cent of total investment.

The next Five-Year Plan

K. K. SHARMA New Delhi

According to the document, "approach to the Seventh Plan," the strategy aims at a growth rate of a little over 5 per cent annually. It will thus try to maintain the rate achieved in the Sixth Plan period which succeeded in breaking the traditional trend rate of 3.5 per cent.

This growth rate should contain inflationary pressures and lead to import substitution in sectors like crude oil, grain and edible oils, besides generating employment and income for the poor, especially in the less developed regions.

The plan is based on the assumption of 26 per cent national savings ratio. The required funds will be mobilised in a manner which minimises dependence on external sources or on deficit financing.

The strategy outlined is expected to result in a lower capital-output ratio, and the allocation of resources will be made in a way to serve the basic objectives of the plan—production of food, creation of employment and improvement of productivity.

Development

In agriculture, the stress is to be on increasing cropping intensity and extension of new technologies to low-producing regions so that rural development programmes effectively create productive assets.

The "Approach" paper also seeks to emphasise industrial growth, though the accent is on better use of existing capacity and its expansion at minimum cost. Stress is being laid also on modernisation and upgrading of technology.

Industrial development is also sought to be promoted by encouraging competition among corporations with the objective of increasing productivity, quality and growth, and reducing costs. As many restrictions as possible will be removed.

The industrial development strategy envisages output increasing at about 7 per cent annually.

This is expected to provide increased employment opportunities and facilitate production of a wide range of goods and services for mass consumption. It would also lessen the pressure of unemployed labour on farm land and help generate additional incomes in the rural sector.

Electricity generation is expected to grow from about 155bn kwh at the end of the sixth plan to 270bn kwh in 1990.

Substantial increases are proposed in production of basic goods which contribute to the strength and performance of the economy, such as steel which is targetted to reach a production of 13m tonnes and cement which is expected to be about 50m tonnes by 1990.

Originating railway freight is expected to be about 375m tonnes by 1990 compared to 275m tonnes at the end of the Sixth plan.

Crude oil production is expected to rise to at least 35m tonnes. A substantial step-up is also envisaged in fertiliser production.

Basically, the plan aims at reducing the population below the poverty line in the country to 23 per cent, a 14 per cent advance on the expected Sixth Plan achievement of reducing to 37 per cent the number of people below the poverty line (compared to 51 per cent at the start).

The projection is part of the long-term perspective to reduce the sweep of poverty to around 10 per cent of the population by 1995.

This is considered feasible, given the *thrusts contained in* the plan's approach document for farm growth and rural development combined with increased employment and building up of capital and productive assets on land.

The total population is expected to continue to grow at around 1.88 per cent, reaching by 1990 a level of 803m from the existing 734m.

The plan will attempt not only to create employment opportunities to absorb this net addition to the workforce, but also try to reduce the backlog that will spill over from the Sixth Plan.

Western institutions queue to enter

Foreign Banks

PHILIP STEPHENS

CHASE MANHATTAN is first in the queue; several others are lining up behind.

India's long-standing refusal to see any major expansion of the network of foreign banks has not dampened the enthusiasm of many U.S., European and Japanese banks in seeking branches in Bombay and Delhi.

Mr Rajiv Gandhi's promise to modernise Indian industry and the expectation of higher foreign borrowings have heightened the perception of the potential rewards.

The slow pace of India's borrowings over the past few years has meant that its credit rating remains excellent and that many western banks have considerable scope to increase their Indian assets.

The odd exception—Société Générale is the latest—to the general rule against allowing any more branches has kept hopes alive.

Chase has been waiting nearly a year and has adopted a high profile in international loan syndications for India to press home the point that it has something to offer.

India's official stance is that it considers applications on the basis of reciprocity — it will grant permission only when Indian banks are given a similar opportunity in the country of origin of the foreign bank.

But the policy has become outdated because the rapid expansion of the Indian banks abroad is largely over. There are more U.S. banks in India than vice-versa, but only because the Indian banks have not sought to expand further in the U.S.

The decision last year to allow Société Générale to upgrade its representative office into a full branch did not square with the reciprocity formula and has strengthened the view among foreign bankers that the Government is operating a case-by-case approach.

The overall policy will remain restrictive but exceptions will be made for banks which can demonstrate that they can make a positive contribution to Indian development.

The obvious lure for the banks is the prospect of an increased share in the rising commercial borrowing and traditional corporate and trade finance business. But there is also the potential offered by the recent boom in India's capital markets.

Both Grindlays, with 56 branches the largest foreign bank in India, and its smaller though still substantial rival Standard Chartered, have established thriving merchant banking divisions.

Bank of America, which has achieved a high profile in the country despite having only four branches, is also strengthening its capital markets division, though like all U.S. banks it suffers from the handicap of not being able to underwrite local capital issues.

The view among foreign bankers is that the Government's industrial liberalisation policies will generate demand for an increasingly sophisticated array of financial services.

Michael Richardson, the chief executive of Standard Chartered's merchant banking division, says that the 1973 foreign exchange act which forced foreign companies to sell-off the majority holdings in their Indian subsidiaries has provided a sizeable proportion of its business.

But the stock exchange boom has prompted demand for a much wider range of services. These include managing domestic equity and debenture issues, underwriting, advice on mergers and acquisitions, and overseas finance.

That view is shared by P. N. Vijay, the manager of Grindlays merchant bank division, who says that it now has a much broader range of activities than five years ago.

Perhaps a third of the division's direct income in India comes from capital issues, another 15 per cent from rupee financing and 20 per cent from lease-broking.

Foreign banks in India

	No. of branches
Grindlays Bank	56
Hongkong and Shanghai Banking Corporation	20
Standard Chartered Bank	24
Citibank	6
Bank of America N.T. and S.A.	4
American Express I.B.C.	3
Banque Nationale De Paris	5
British Bank of the Middle East	1
Bank of Tokyo	3
Algemene Bank Netherland	2
Mitsui Bank	1
Sonali Bank	1
Banque Indo-Suez	1
European Asian Bank	1
Bank of Oman	1
Emirates Commercial Bank	1
B.C.C.I. (Overseas)	1
Bank of Nova Scotia	1
Societe Generale	1
Branches total	134

Source: Press Trust of India

Banks reach the heartland

A BRANCH for every 15,000 people puts India in the ranks of many developed countries in the general availability of banking services.

The spread of the Indian banks to the rural heartland of the country since nationalisation in 1969, breaking the grip on agriculture of the village moneylender, is justly claimed as a remarkable achievement.

Financial institutions

PHILIP STEPHENS

The number of branches has risen six-fold to around 47,000, while the banks' deposit base has climbed from Rs50bn (£3.3bn) to more than Rs700bn (£46.7bn).

The system of concessional loans to farmers is acknowledged even by the critics of nationalisation as having played a key role in the green revolution which has made India self-sufficient in grain.

But if the social aims have been achieved the legacy is a banking system that to the Western eye is unprofitable, offers poor services, is inefficient and often corrupt.

The latest estimates available suggest that the 21 state-sector banks which account for 92 per cent of all deposits made profits of only Rs700m (£46.7m) in 1983. The foreign banks in India, which have a minute 4 per cent share of deposits, made Rs170m (£11.3m).

The consensus within the Indian banks has been that since they act as a catalyst for wealth creation in the rest of the economy their own profitability was of subsidiary importance.

The emphasis on the social rather than the market role was underlined in a recent speech by the managing director of the State Bank of India, the country's largest bank.

Addressing shareholders (8 per cent of the equity is still in private hands) on the SBI's performance in 1984, Mr Shri A. S. Puri devoted 16 pages to its success in meeting Government targets for lending to different priority sectors. Not once did he mention profits.

There are signs though that just as the Government is now insisting that other public sector industries must generate profits banks are also coming under scrutiny.

That is not to say that there will be a fundamental shift in approach. The Government has made it clear that it expects the nationalised banks to continue chanelling 40 per cent of all lending to the so-called priority and small-scale enterprises—at favourable interest rates.

The extent of official regulation in this respect was emphasised in a recent publication of the Reserve Bank of India. It listed no less than 67 different sectors and sub-divisions ranging from seed distribution to pre-shipment export credits which qualify for loans at below market rates.

Dr Manmohan Singh, a former chairman of the Reserve Bank and now deputy-chairman of the Planning Commission, has also made it clear that the branch expansion policy will continue, albeit at a slower pace than in the 1970s.

The aim is to draw more cash into the banking system to fund development, with a target for the national savings ratio in the Seventh Plan of 26 per cent compared to the current 22 or 23 per cent.

All banks, including the foreign and the handful of private Indian banks, at present have to invest 36 per cent of their total deposits in approved public securities and that figure will shortly rise to 37 per cent.

A further nine per cent of deposits are absorbed by the cash liquidity requirement of the Reserve Bank.

The net result is that the state-owned banks are free to lend only around 15 per cent of their resources at what might be termed market rates, though even here there is a ceiling of 17.5 per cent.

The basic thrust of policy, therefore is unlikely to change. But both the Reserve Bank and the Finance Ministry have signalled that within that overall strategy they want a drive towards modernisation, greater efficiency and increased profits.

Philosophy

This is a philosophy which Mr J. S. Varshneya, the new chairman of the Punjab National Bank, terms "profitability within the constraints of the nation's economic and social needs."

In an increasingly competitive environment, the banks would have to rely on greater efficiency and improved service to a far greater degree than in the past, said Mr Singh in a major policy review of the Banks' role in the Seventh Plan.

In a short-lived move which was introduced in April this year, the Reserve Bank liberalised the regulatory framework governing short-term deposits, raising the maximum interest rates payable on deposits of up to one year to 8 per cent from between 3 and 4 per cent.

The immediate reaction of the nationalised banks was horror—they feared that such a rise would wipe out whatever small profits they make, and under the aegis of the Indian Banks' Association they attempted to peg rates at 4 per cent.

But the small private and the foreign banks broke ranks forcing all to go to the maximum 8 per cent.

However, the experiment was abandoned by the Reserve Bank after only a few weeks operation on May 25. The banks argued that there would be an outflow of not less than Rs 2bn in interest payments and this would hit profitability.

The authorities are also encouraging a drive towards computerisation and after years of wrangling a deal has now been concluded between managements and unions.

The SBI, which with its associates accounts for around 35 per cent of all deposits, plans to spend Rs1.5bn (£100m) on a three-year computerisation programme.

Another focus is the poor accounting and management procedure in many banks, which have led to allegations of widespread irresponsibility and corruption in loan operations.

Tackling that problem and the bureaucratic inertia which has crept into most public sector banks will be no easy task.

Bank branch expansion

Public sector and other commercial banks

Banks	Number of offices on 30.6.69	30.6.83	30.6.84	Increase between 30.6.69 and 30.6.84	Increase in the number of offices in rural centres†
State Bank of India	1,569	6,396	6,636	5,067	2,987
Subsidiaries of SBI...	893	2,965	3,117	2,224	1,069
14 nationalised banks	4,134	18,567	19,387	15,253	8,687
Regional rural banks	...	6,473	8,360	8,360	7,853
Total of public sector banks......	6,596	34,401	37,500	30,904	20,616
Six banks nationalised on April 15 1980...	419	3,187	3,205	2,786	1,360
Total	7,015	37,588	40,705	33,690	21,976
Other Ind. scheduled commercial banks .	900	4,323	4,456	3,556	1,602
Foreign banks	130	133	134	4	−1
Total of all commercial banks ...	8,262	42,079	45,332	37,070	23,540

† Rural centres—places with a population up to 10,000.

Source: Economic Survey 1984-85, Government of India.

State-owned institutions a major force

MOST TERM lending to Indian industry is channelled through a series of state-owned or controlled financial institutions.

These provide straightforward long-term finance, underwrite share or debenture issues, arrange project finance and for major investments usually insist on equity participation. They also refinance loans made by the banks.

They have emerged as the major force on the country's stock markets, controlling perhaps 30 per cent of all share capital. The institutions also act as the channel for most foreign borrowing for the private sector, raising credits under their own name for onlending to different ventures.

The main country-wide institutions are as follows:

● **Industrial Development Bank of India (IDBI)**—the umbrella national development bank, wholly-owned by the Government of India and with an authorised capital of Rs 4bn (£260m). Principal sources of funds are borrowings from the Government, Reserve Bank and abroad and bond issues on domestic markets. Appraises and supervises industrial projects acts as a lender of last resort and, in particular, provides finance for large and capital-intensive projects.

● **Industrial Finance Corporation of India (IFCI)**: established soon after independence to provide medium and long-term finance to industry. Authorised capital of Rs 500m (£33m). Paid up capital held by IDBI, banks and other financial institutions. Provides financial assistance in the form of rupee loans, foreign currency loans, underwriting of and direct subscription to share and debenture issues.

● **Industrial Credit and Investment Corporation of India (ICICI)**: set up in 1955 with the encouragement of the World Bank to channel overseas grants and loans into industrial development. Authorised capital of Rs 500m (£33m).

Major shareholders are other Indian financial institutions although 13 per cent of the paid-up capital is still held overseas. Frequently raises foreign exchange resources on international markets and has extended its operations to rupee loans, merchant banking and leasing.

● **Life Insurance Corporation of India (LIC)**: set up to take over life insurance business from 244 private companies which were nationalised in 1956. Initial capital of Rs 50m (£3.3m) provided by Government. Funds at end-March 1983 totalled Rs 91bn (£6.1bn). Minimum of 75 per cent of resources investment in central and state government securities, 10 per cent allocated for private sector shares and debentures.

LIC provides assistance to industry through direct subscription to and underwriting of capital issues and direct loan assistance.

● **General Insurance Corporation of India (GIC)**, established to take over the role of private general insurance companies which were nationalised in 1973. Capital and funds stood at Rs 2bn (£133m) in December 1982. 70 per cent of investments are reserved for specified investments in the public sector.

● **Unit Trust of India (UTI)**:—established in 1964 to mobilise small savings for productive investment, an associate institution of IDBI. Total investments of Rs 8.7bn (£580m) at end-June 1983.

● **Export-Import Bank of India (Eximbank)** — established in 1982 to strengthen institutional backing for non-traditional exports. Authorised capital Rs 2bn (£113m); operates various lending programmes to promote exports of engineering and capital goods and related services.

PHILIP STEPHENS

BUSINESS MANAGEMENT STYLES: A FAMILY OF ENTREPRENEURS

The R. P. Goenke Empire: Duncan Enterprises

	*Gross turnover Rs m	Profit (loss) pre-tax Rs m	Gross fixed assets Rs m
CEAT Tyres	2,586.2	69.3	412.0
Dunlop India	3,202.7	84.5	992.5
Bayer India	748.0	54.5	246.9
Searle India	249.3	64.2	82.0
Kamani Engineering	780.9	26.9	185.7
Asian Cables	233.6	4.3	133.9
Wiltech India	35.0	(6.5)	149.7
Philips Carbon	344.0	36.8	56.8
Murphy India	151.2	(8.8)	40.9

* All results are for 12 months 1983-84 or 1984 calendar year except: CEAT Tyres, 15 months to June 30 1984; Dunlop and Bayer, 1983 calendar year; Philips Carbon, year to November 30 1983; Murphy India, 18 months to June 30 1984.

Mr R. P. Goenke (left) and his sons, Harsh Goenke, 27, and Sanjiv, 24. Mr R. P. Goenke was last month elected vice president of the Federation of Indian Chambers of Commerce and Industry.

PROFILE: THE GOENKE EMPIRE

Aggressively expanding tycoons

HARSH GOENKE, age 27, is managing director of CEAT Tyres of India. Sanjiv, his 24-year-old brother, is deputy managing director of Dunlop India. Both are young by any standards to be at the top of company management.

They are part of India's hereditary management system and are the sons of Mr R. P. Goenke, 54, who is one of the country's most aggressively expanding tycoons.

"I bought Dunlop to give Sanjiv, who is based in Calcutta, a spring-board to start in business. His brother Harsh has companies based in Bombay, including CEAT Tyres. Now I want both of them to grow from that and work independently of me," says Mr R. P. Goenke.

Sanjiv ran a small loss-making fibreglass unit when he was 21, and last December took on his post at Dunlop where he works alongside Mr John Hamond, 58, a Dunlop executive from the UK who is managing director.

Harsh started his managerial career in charge of a small loss-making cotton mill when he was also 21 and became managing director of CEAT Tyres at the age of 25. He and top executives know that his father expects him to emerge as head of the family businesses.

Both sons say that they feel they bring their family's entrepreneurial flair to work alongside professional hired managers.

The companies in the R. P. Goenke fold are grouped together in Duncans Enterprises which owns nothing but acts as an informal umbrella. Quite often the Goenke's stake is small — for example it is only 9 per cent in Bayer and 4.9 per cent (plus another 4.9 per cent held by an associate) in Dunlop.

After five years of extremely rapid growth the current total turnover is Rs8bn (£533m), up from only Rs700m in 1979. The target for the next five years to 1990 is roughly to double the present figure to Rs15bn.

Takeover

This is one of three branches of the large Goenke family which have been run separately since 1979. The others are controlled by Mr R. P. Goenke's younger brothers, JP and GP, and are in textiles, chemicals, jute, tea, tobacco, synthetic fibres and petrochemicals.

Together, they have a total turnover of about Rs14bn which makes them the third biggest business family after the Tatas (Rs30bn turnover) and the Birlas (Rs28bn).

Mr R. P. Goenke was a close contact of the late Mrs Indira Gandhi, former prime minister, and his expansion came in a series of controversial market raids and takeover bids which received the backing and approval of the Government.

He started his working life in the former Duncans managing agency and began his expansion trail in 1981. Since then, he has gone into the rubber business with CEAT and Dunlop which each have 16 to 17 per cent of the Indian tyre market, pharmaceuticals with Searle, rubber and other chemicals with Bayer, consumer electricals with Murphy and transmission towers with Kamani Engineering. His only major defeat was when he failed to win Premier Motors, one of India's two major car producers, two years ago.

Now electronics, rubber and possible synthetic fibre are to be the main growth areas. Mr Goenke says is turning away from takeovers and is concentrating on new collaborations with foreign multi-nationals for the next phase of growth. Pepsico, ITT, Olivetti, Dupont and Nippon Zeon are among the international link-ups arranged for collaborations in soft drinks and fruit processing, telecommunications, computers and data systems, industrial nylon and synthetic rubber.

Mr Goenke says he believes in mixing India's traditions of hereditary family ownership and control with professional managerial expertise — most of his companies are run day-to-day by hired professionals and the two sons are put through business school courses at the Geneva International Management Institute.

"Whatever I am today is due to Harvard," says Mr R. P. Goenke, who went on the school's advanced management programme for six months in the late 1960s. "It taught me two things in life — its case studies taught me to examine each problem or proposal independently without bias and without getting emotionally involved. It also made me self-reliant. Maybe it was in me anyway. But it brought me out."

Other cynical or jealous Indian business rivals might see it differently and put the Goenke success down to two other factors rather than Harvard training. One is that the Goenkes belong to India's famous aggressive and allegedly unscrupulous trading sub-caste, the Marwaris. After the Birlas, the Goenkes are probably the most successful Marwaris.

The second factor stems from the Marwaris' skilful willingness to take part in India's traditional and deeply corrupt business and political life. Mr Harsh Goenke admits the Marwaris' bad reputation—"I would say they are very good at getting things done — when a Marwari says he will get something done, he will do it and use whatever means are available."

Mr Sanjiv Goenke tactfully dodges the question, saying all Marwaris are different. But his father firmly rebuts stories that allege he used political favours and black money to purchase his controlling interests in companies like Dunlop.

"Those stories are absolutely wrong — malicious," he says.

JOHN ELLIOTT

India's top 25 industrial houses

(1 crore = 10m)

Name of industrial house	Assets 1983 (Rs crores)	Turnover 1983 (Rs crores)	Rank by Assets 1983 (no)	Rank by Turnover 1983 (no)	Rank by % Rise assets 1983 over 1980	Rank by % Rise in turnover 1983 over 1980	Rank by Assets 1980 (no)
ACC	571.36	571.31	6	11	6	2	3
Ashok Leyland	283.39	319.43	22	24	13	21	20
Bajaj	383.99	482.92	11	17	2	5	18
Bangur	350.29	498.37	18	14	24	23	9
Birla	2,830.94	2,765.04	1	2	8	18	2
Chowgule	285.75	90.71	21	25	19	22	17
Dunlop	240.69	336.05	23	23	11	20	24
Hindustan Lever	303.89	707.96	19	6	22	17	12
ITC	335.71	791.54	17	4	5	9	22
ICI	375.42	560.15	13	12	25	8	6
J. K. Singhania	674.15	651.24	4	9	18	19	4
Kirloskar	362.46	490.34	14	15	14	15	11
Khatau	227.92	345.58	25	22	23	25	19
Larsen & Toubro	423.71	392.14	9	21	9	10	13
Mafatlal	694.95	982.92	3	3	17	12	8
Mahindra & Mahindra	292.19	417.38	20	20	16	11	16
Modi	410.50	686.52	10	8	7	7	14
Reliance Textiles (Ambani)	562.98	621.51	7	10	1	4	21
Sarabhai	444.61	510.03	8	13	21	24	7
Shri Ram	356.93	700.71	16	7	20	13	10
Tata	2,672.40	3,069.38	2	1	12	14	1
TVS (Santhanam)	357.22	443.85	15	18	10	6	15
Thapar	572.18	753.08	5	5	15	16	5
United Breweries (Mallya)	234.28	431.85	24	19	4	3	25
Walchand	383.63	489.30	12	16	3	1	23
Total	14,651.64	18,109.31					

● This table shows how India's top hereditary industrial families still dominate the business league table, led by the Tata, Birla, Mafatlal, J. K. Singhania, Thapar and Ambani (Reliance Textiles) families.

Duncans Enterprises, run by the G. P. Goenke family (see adjacent profile) does not appear in the table which was based on returns of linked companies to the Monopolies and Restrictive Practices Commission, and the Goenkes keep their companies legally separate. But Duncans would slot in as 20th, in terms of turnover in 1983, with a total of Rs 409 crore (Rs 4,090m), which then almost doubled to Rs 805 crore in 1984.

Ambani's Reliance Textiles also grew dramatically in 1984 (see profile).

Source: The Economic Times, 1985

PROFILE: ADITYA BIRLA

An industrial overlord

Aditya Birla: plenty of enthusiasm for India's young Prime Minister

Companies controlled by Aditya Birla

All figures in millions.

	Year	Currency	Gross fixed assets	Sales turnover	Pre-tax profit/ (loss)
● Indian companies					
Gwalior Rayon	31.12.84	Rupee	3,157.6	3,719.6	100.9
Indian Rayon	30.6.84	Rupee	1,546.2	963.5	29.3
Hindalco	30.12.84	Rupee	2,342.0	2,855.8	111.3
● Foreign companies					
Thai Rayon	31.12.83	Thai Bhatt	365.3	634.0	(3.9)
Thai Carbon	31.12.84	Thai Bhatt	274.0	37.3	(2.9)
STPP Plant			Not available		
PT Indo Bharat	31.12.83	Indonesian Rupia	21,543.1	27,313.3	4,656.2
PT Elegant	31.12.83	Indonesian Rupia	6,533.7	10,872.3	(487.6)
PT Sunrise	31.12.83	Indonesian Rupia	7,948.8	11,080.7	148.5
Indofil Textile	31.12.84	Piso	86.5	187.9	12.8
Pan Century Edible	30.9.84	Malaysian $	33.8	487.2	9.9
Indo Thai Synthetics	30.7.84	Bhatt	212.8	348.4	35.0

All figures in millions. Source: The Birla Group.

IT WAS more than 35 degrees centigrade outside and everyone else was in open-necked shirts and sandals, but businessman Aditya Birla seemed perfectly comfortable in his navy blue suit, black brogue shoes and firmly fastened tie.

Surrounded, as are all Indian tycoons, by a group of secretaries and aides, he was writing a letter to the Prime Minister offering his condolences and support after the recent wave of sectarian bombings.

Though the suit matched his image as perhaps the most sober (rivals would say dour) of the country's major industrialists, he was relaxed enough with a visiting journalist to ask for advice on the phrasing of the letter.

At 42, Aditya Birla runs one of India's longest-established and biggest industrial empires, the Birla Group, which he heads along with his father B. K. Birla. His status is further enhanced by a seat on the board of the Reserve Bank of India.

Group is a misnomer, because Indian anti-monopoly laws bar the establishment of an umbrella holding company with overall control.

Through a complex series of interlocking shareholdings, some held by friends and relatives, son and father control a sprawling network of companies with a turnover conservatively estimated at Rs 25bn (£1.6bn) a year.

Aditya himself runs companies ranging from the long-established Gwalior Rayon and Hindustan Aluminium in India, to nine companies in South-East Asia with interests as diverse as edible oil, carbon black and textiles. The palm oil plant in Malaysia, he says, is the largest in the world.

The overseas companies he set up himself, as he did Indian Rayon, the third prong of his domestic empire. Gwalior and Hindustan were passed on from his father.

Rajiv Gandhi's March Budget, with its emphasis on industrial modernisation and liberalisation has boosted Aditya Birla's natural confidence.

Businessmen in countries like India, where industrial success depends crucially on securing the right Government licences, can always be expected to publicly praise the Government of the day.

But Birla's enthusiasm for the young Prime Minister was more than tokenism — "he understands the economic realities of India . . . his policies are sound, pragmatic and visionary," was just one of a whole string of compliments.

The explanation is that he sees the Government industrial liberalisation policies as providing the opportunity for a major expansion of the Birla Group.

"We have plans for cement plants, fertiliser plants, petrochemicals," he says.

But what of the view that the major industrial groups in India had prospered not in spite of, but because of, strict Government regulation — that once a businessman had jumped the hurdle of securing permission to produce something, then he had a licence to print money because there was no competition?

"That may be true of 20 to 30 per cent of companies. But we have proved our ability to compete against the best — the Japanese and the Americans — in South-East Asia."

The high-cost structure of Indian industry, he says, is a direct result of the restrictive Government policies which the Prime Minister is beginning to dismantle.

And what of the huge disparities between rich and poor in India. Did not he, probably a millionaire several times over, feel uncomfortable in a country with so much poverty?

The answer was another question: "Should India seek to pull down the rich or to improve the lot of the poor? Should we distribute poverty or create wealth . . . Let the masses get the benefit of more competition." In other words, what is good for the Birlas is good for India.

It was much the sort of response one might have expected from Aditya's grandfather, G. D. Birla, the founder of the family empire.

PHILIP STEPHENS

PROFILE: DHIRUBHAI AMBANI OF RELIANCE TEXTILES

A man of boundless ambition

"YOU MEAN the article which claims that I've got where I am because of links with Mukarjee?" enquired India's textile king. "I'll get you a copy. I've nothing to hide. Besides, in India you don't get anywhere with the help of just one man."

Dhirubhai Ambani is not a man to give a bull a wide berth. He takes it by the horns and shakes it till it lies down. The article Mr Ambani was referring to claimed he had used his close friendship with one of the late Mrs Indira Gandhi's senior ministers to secure licenses and approval for some of the projects which have made his Reliance Textile empire the country's fastest growing industrial giant.

Mr Ambani's links with Mr Pranab Mukherjee, the former finance minister, will certainly not have done him any harm. They should not, however, obscure the fact that Mr Ambani has engineered one of the most remarkable successes witnessed even by India's racy business world.

Shrewd

Reliance Textile Industries has come from nowhere to sales of Rupees 6.114bn (US$510m) in less than 20 years. Reliance profits in 1977, the year it went public, were Rupees 43m. Last year they reached Rs 953m.

Mr Ambani, a shrewd, extrovert Gujarati with a wicked sense of humour, is a man of boundless ambition. He wants to overtake India's industrial giants, the Tatas and the Birlas, and become the country's biggest company. "I just want to prove that someone who started out with nothing can do it. Just for the hell of it," he says, reclining in a soft white leather armchair in his cool, silent offices in Bombay's frenetic business centre.

Mr Ambani began business life as a junior clerk for a French company managing British oil interests in Aden. Within seven years he was regional sales manager. Then he made his first investment in India. He has never looked back.

He reckons he could actually be India's No 1 by 1986. He plans to invest some Rs5bn in new projects over the next two years which could put Reliance on top. The company is diversifying out of textiles and into petrochemicals in a major way. Besides controlling India's textile market, Reliance may soon dominate the country's detergent market, too.

How has he achieved this?

Political influence has certainly been a factor. Mr Ambani will admit to helping individual politicians along the way — "I believe in helping my friends," he says, but denies assisting any one political party. A long-time business associate says Mr Ambani covers all bets which, in the merry-go-round of Indian politics, is no bad thing.

Advertising has been another. Reliance has its own advertising agency and has turned Vimal, its brand-name, into the first product most Indians ask for when shopping for cloth.

Most of his admirers and even many of his detractors, however, say that what distinguishes Mr Ambani from the rest is his ability to think originally and his courage to put even his most daring ideas into effect.

Sales assistant demonstrating cloth in a Bangalore store

Reliance was the first Indian company, for example, to go in for convertible debentures as a path to growth. When others were borrowing from the state or inviting large institutional investors to take a stake in their companies, Reliance went out into the market looking for the small shareholder. Since 1977, he has looked after those shareholders well. Shares worth Rs10,000 in 1977 are valued at Rs2m today. Last year, Reliance gave a dividend of 40 per cent.

Reliance recently put another Rs500m of convertible debentures on the market. They were heavily over-subscribed within hours when others were having trouble selling their issues.

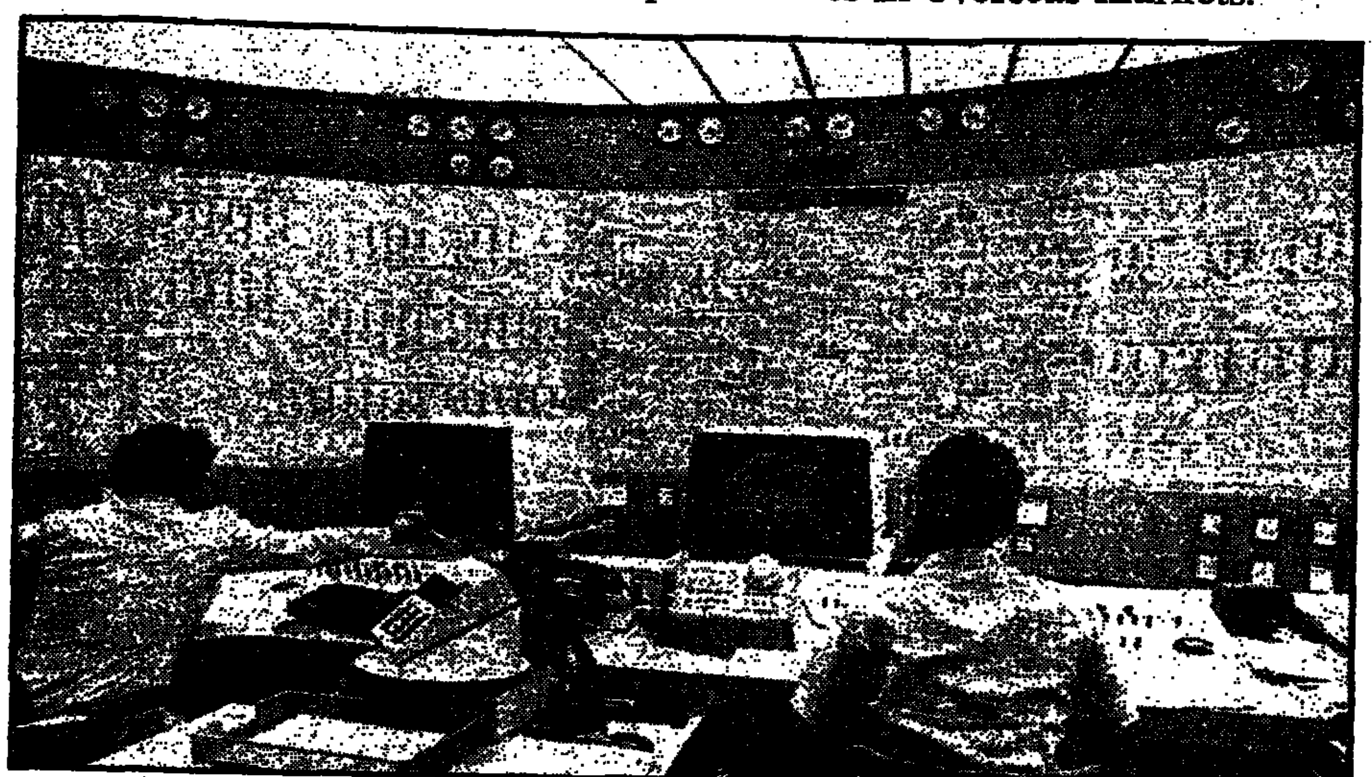
Reliance also pioneered the use of independent outlets and dealers whose loyalty Mr Ambani ensures by the spectacular growth in Reliance shares and products. Another important factor in helping Reliance grow has been the use of highly sophisticated equipment which is regularly replaced making full use of investment allowances.

Reliance industries have also managed to steer clear of labour troubles. Mr Ambani, while looking after his staff and rewarding his senior associates particularly well — many have become very rich — is also something of a slave-driver. Foreign experts who flew out to help build Reliance's 10,000-tonne polyester filament yarn plant at Patalanga, found themselves working on the site so intensively that the plant was completed in 13 instead of 24 months — a feat which impressed even the hard-nosed men from the U.S.'s Du Pont de Nemours.

Where does Mr Ambani go from here? His enemies ("I have many," he says "Every time I change orbit, I acquire new ones"), say that he is in too much of a hurry. In the new climate created by Mr Rajiv Gandhi, India's new Prime Minister, a man like Dhirubhai Ambani may find it much harder going.

ALAIN CASS

The Government has ambitious new targets for improving industrial growth, efficiency and competitiveness in overseas markets.



India is admitting more foreign technology and equipment into the country that will speed up industrial development. Above, the computerised load-despatch centre at the heart of the Trombay Thermal Power Station

Bold plans for reform

INDIA has embarked in the past few months on its most ambitious and wide-ranging series of reforms in industrial and trade policy since the country's independence 28 years ago. While continuing as a planned economy with a system of bureaucratic controls and a major role for the public sector, the Government is trying to improve industrial growth, efficiency and international competitiveness.

It is doing this by relaxing many industrial controls that inhibit managerial freedom to react to market conditions. It is also admitting into the country foreign technology and equipment that will speed up industrial development, forcing some parts of Indian industry to face foreign competition for the first time instead of being able to produce poor quality, expensive goods for the previously captive domestic market.

Policies for trade and industry

JOHN ELLIOTT
New Delhi

"The major weakness is our efficiency. Our industries are not as efficient as other industries in the world and certainly not as efficient as we would like them to be.

"Their productivity is low, quality standards are not up to those in the rest of the world. The cost of production is still very high and in many areas there is technological stagnation. These are the challenges that we face today," Mr Rajiv Gandhi told a recent meeting of the Davos-based European Management Forum in Delhi.

The reforms were started by the late Mrs Indira Gandhi in 1980-82 at the start of her last term as Prime Minister. But the steam went out of many of her initiatives although she commissioned reports which have inspired the current reforms.

There is to be a general switch from physical controls to fiscal controls for trade and industrial policy. "we want to shift from the discretionary controls where someone in government either rejects or accepts an industrial application to control by tariffs on trade and by credit and fiscal policy on industrial development," says Mr Vishwanath Pratap Singh, Finance and Commerce Minister.

Such a change would enable an industrialist to decide whether to import equipment and start an industrial project on the basis of the cost of import tariffs and bank interest. Up till now, his main concern has been winning licences and approvals from civil servants.

But some trade protection will continue, even though tariffs are being lowered.

Protection

"We want to expose industry to external as well as internal competition so we do not want tariffs that are too high," says Mr V. P. Singh. "But we must continue with tariffs because some protection is needed by industry in its infancy."

For example tariffs are being cut drastically, for large computers not made in India, to encourage their use by Indian businesses. But high tariffs are being reimposed on goods which are developed and being made in the country to protect them from competition.

The main changes in industrial policy are:

● Introduction of the concept of "broad banding" for industrial licensing. This will allow manufacturers production flexibility to react to customer demand and material shortages without needing government approval.

For example, a manufacturer of a four wheel vehicle such as a heavy lorry providing he does not have to buy foreign technology can switch into car production. Broadbanding has been introduced for: four and two wheel vehicles; machinery for paper and pulp, chemicals, pharmaceuticals and fertilisers; machine tools.

The list is now being expanded into drugs and chemicals, agricultural equipment and other areas.

● A list of 25 industries have been removed from licensing, providing the companies involved do not fall within the orbit of the Monopolies and Restrictive Trade Practices Act (MRTP) or Foreign Exchange Regulation Act, (FERA).

The industries include electronic components, motor ancillaries, cycles, machine tools, industrial sewing machines, office equipment and industrial gases.

● The threshold for company size above which the MRTP restrictions apply has been raised from Rs200m (£13.3m), to Rs1bn.

● The list of industries of strategic national importance where MRTP companies need not apply for lengthy approvals from the Government's Company Law Board is being extended. This major change enlarges the list from ten to 37 industries, bringing in sectors such as iron castings, transmission line towers, electrical motors with starters, ten types of electronic components, pollution control equipment, and machine tools.

All these industries will later be included in the Government's key Appendix One industries which are open to MRTP and FERA companies.

● Existing arrangements for automatically endorsing and enlarging approved industrial capacities are to be renewed and expanded to increase production flexibility.

● A Board for Industrial Revival and Reconstruction is to be set up to implement a policy for the country's 86,000 small and 440 large sick industries. About 10 per cent of the total will be dubbed "incurable" and closed, and the rest will be nursed back to health.

● There are no plans for changing the basic FERA rules on foreign investment although foreign technology and equity is now being encouraged to boost technological development, especially in electronics and telecommunications. The discouragement of the use of foreign trade marks and brand names will also continue.

● Various industries such as tea, leather and parts of engineering are to be identified as "thrust areas" which will receive special concessions and a co-ordinated approach from different Government ministries.

● Relaxations of import tariffs have been announced for various industries, including electronics.

In addition, 201 extra items have been included in the list of capital goods allowed freely into the country by open government licence (OGL). An Import-Export Pass Book Scheme has been introduced to allow manufacturers duty free import of parts for export production.

The trade deficit widens

INDIA'S trade gap soared to a record Rs 59.95bn in 1983-84 and, despite the encouraging increase in exports by nearly 19 per cent in the first nine months of 1984-85, the deficit is expected to be much the same as in the previous financial year.

This is causing obvious concern, although there is no short-term crisis because a strong inflow of capital from non-resident Indians has boosted foreign exchange reserves. But if efforts to close the gap do not succeed over the next few years, it would put a question mark over the liberalisation of imports during the past few years.

Concern over trade figures

K. K. SHARMA
New Delhi

Having seen the damage to industrial competitiveness that a restrictive policy has inflicted in the past, officials think that any major reversal of trade policies is unlikely.

Indeed, they would like to initiate more, rather than less, liberalisation. What they would like to see is a change in the direction of trade with the main partners so that a better balance of trade bilaterally is reached.

The main example is the U.S., now India's largest trading partner but only by accident. The U.S. accounts for nearly all the exports of crude oil from India's Bombay High offshore oilfield. As a result, exports to the U.S. increased by a seemingly impressive 47.8 per cent in 1982/83 and have shown a high level in 1983/84 and 1984/85 because of this single item.

Yet the trend is deceptive. Exports of crude from Bombay High are due only to the fact that India lacks the refining facilities to process the particular kind of crude produced and until these are established (within a year or two), the oil has to be exported even though India remains a net importer of crude.

Once these processing facilities are established oil exports to the U.S. will dry up and the usual heavy adverse balance of trade against India will return. This is because imports from the U.S. are going up at the rate of roughly 30 per cent annually; and because of the increasing import of high technology and capital and consumer goods from the U.S. As a result of the Government's industrial policies, the Indo-U.S. balance of trade will continue to worsen.

Curiously, the position on Indo-Russian trade is totally different. Trade with the USSR is conducted on the basis of bilateral clearing arrangements envisaging balanced trade in non-convertible Indian rupees. Because of the trade surplus that has emerged in recent years, mainly because of the inability of the Soviets to meet India's needs for technology and capital goods, the objective of bilateral balancing required a temporary adjustment in trade flows.

As a result, India's exports to the Soviet Union declined by nearly 16 per cent in 1983-84, while imports increased slowly by around 8 per cent.

In the last couple of years, the effort has been to achieve balanced trade by a higher level of exports and imports. In the trade protocol with the Soviet Union for 1984 and 1985, a substantial growth in exports was envisaged. This could, if the Russians continue to find themselves as exporters mainly of primary goods like crude and fertilisers, present problems of a different kind than those encountered in Indo-U.S. trade.

Officials concede, however, that India's overall trade problems lie in cutting down bulk imports through higher internal production and stepping up exports so that the global deficit is brought to manageable proportions within a few years, before the country's foreign exchange position deteriorates. They want to use the cushion provided with the present situation to make this possible

India has innumerable schemes and incentives to boost exports and a high level of achievement has been made. Total exports increased by 4.6 per cent in 1980-81 and then by 16.3 per cent in 1981-82 and a further 14.1 per cent in 1982-83 despite the continued deterioration in the international trade environment and increased protectionism in the industrialised countries.

The key items that registered a significant increase in 1983/84 were gems and jewellery, tea, sugar, readyware garments, raw cotton, handmade carpets, cashew kernels and spices.

But these are mainly either primary goods of the traditional kind or items in which India has special skills and a comparative advantage in costs because of low labour charges. Readymade garments and carpets are obvious examples. The more important increases that will be of permanent value, officials recognise, should be those based on the country's industrial capabilities.

Recession

Unhappily, exports of manufactured goods, such as machinery and transport equipment as well as textiles and jute goods, witnessed a decline in 1983/84. This is only partly due to the recession in the world economy and protectionist policies in the importing countries. There were even some internal factors like industrial unrest.

Yet it is now being increasingly realised that the answer lies in making Indian industry competitive through opening it to battles with potential and actual rivals and forcing it to survive without the protection it has enjoyed. An essential ingredient is to help industry along in its modernisation efforts and hence the stress being placed on imported modern technology.

Should these efforts pay off, the momentum achieved by the traditional exports and those of the newer kind will be matched by exports of a wide range of engineering goods.

Workers move steel sheeting at the Ashok Leyland plant, near Madras

Fresh initiatives welcomed

Private sector looks ahead

K. K. SHARMA
New Delhi

WHEN INDIAN businessmen from all parts of the country met at a convention in mid-May, there was a significant point on which they were unanimous.

During speeches over three days, many spoke of the "constructive approach" of the new Prime Minister towards the private sector, and it was clear they were hopeful of a new era of co-operation between the Government and the business community.

They had in mind, of course, Mr Rajiv Gandhi's emphasis on "improvement in productivity, absorption of modern technology and fuller utilisation of capacity" which, he says, should acquire the status of a national campaign.

He has also given an assurance that the Government will open up more areas for the private sector in the interest of full growth of the economy.

To businessmen, this is a refreshing change from the dominant position given to the public sector in the past three decades and the rigid controls and bureaucratic delays they have faced. They have taken new heart from the last budget which, as Mr D. N. Patodia, the newly-elected President of the Federation of Indian Chambers of Commerce and Industry (FICCI), said — "has, while laying emphasis on growth, for the first time taken a long-term perspective."

What Mr Patodia finds particularly satisfying is the fact that the reduction of effective rates of income and corporate taxes has met a long-felt need for facilitating large internal generation of resources by companies and helped ease the demand constraints through enlarged disposable incomes.

His industrialist colleagues joined him in welcoming the policy packages in respect of industries, such as automobiles and electronics, and the flexibility in product-mix. They also applauded the facilities for achieving economies of scale, updating technology and the freedom given to industries which, they hoped, would be extended to as many units as possible.

As one leading industrialist says: "the assurances made by the Government, and the steps that have already been taken in that direction, do indicate that the economy will function in a new environment which will facilitate growth and achieve the objective to which the Government and the country have addressed themselves."

Yet there is a degree of wariness about the new flexibility that the Government has shown, particularly as spokesmen of the private sector point to a number of areas in which changes are still to be reflected.

"Bold policy initiatives," they say, are needed on further relaxation of administrative controls and industrial licensing, in enabling the so-called "monopoly houses" and companies covered by guidelines of the Foreign Exchange Regulation Act (FERA) to expand and to permit the financial institutions to ease restrictions on competitive forces.

Businessmen think that the time has arrived for the Government to begin discussions on the precise role of the private sector, particularly as the seventh Five-Year Plan has given this a welcome extended role that would require a 10 per cent annual growth rate in private industry if the overall rate of 5 per cent is to be achieved.

FICCI estimates that the financial resources required by the private sector during the five-year period amount to Rs 666bn at 1984 prices.

On the basis of past trends in retained earnings, capital markets, borrowings from the financial institutions and other sources like commercial markets abroad, the total available may not be more than Rs 497bn, leaving a large gap of Rs 169bn.

The lack of funds to fulfil the role earmarked for them worries businessmen as they would otherwise be accused of failing to live up to expectations from them. So they wait for other policy changes before making the kind of investment decisions that would be called for if their enthusiasm with the new order was total.

There are three main areas in which the private sector would like to see further policy changes to ensure the 10 per cent annual growth expected of it. The most important is the reduction of the capital output ratio.

The budget for 1985-86 has already moved in this direction by lowering import duties on project imports. Project costs would be further lowered if excise duties on capital goods and equipment are removed.

Secondly, the private sector feels that generation of internal resources, which has shown a decline in the recent past, can be accelerated by reduction in corporate tax rate to 45 per cent without withdrawal of existing concessions, like those on investment allowances.

Conditions

Finally, the private sector wants the terms and conditions imposed on loan agreements by the public financial institutions modified, particularly as regards the debt-equity ratio which should be eased on the viability and capital intensity of the project.

A particularly galling condition has been the clause that enables the financial institutions to convert loans into equity, thus threatening companies with a take-over. This has led to much uncertainty and has held back investment decisions despite official assurances that the clause wil not be used indiscriminately.

In sum, the private sector welcomes Mr Gandhi's initiatives and thinks that major role assigned to it gives it the chance to expand and act constructively to help the country's development. It is keen to take advantage of opportunities offered. But much remains to be done before businessmen can breathe as freely as they would like.

New markets open up in urban areas

Growth of consumerism

DINA THOMSON

"THE TIME is now ripe in India to move into consumer goods. And foreign industrialists do not have much of a choice. With demand in the west approaching a standstill, soon the only major expanding consumer markets left will be India and China," says Mr Ashok Birla, a leading businessman in the country's biggest family group of companies.

There are those who would disagree. In a country of 740m people, where nearly one Indian in two still lives below the poverty line, most in remote villages, and only 3m people pay taxes, talk of a "consumer boom" can seem, at best, somewhat removed from reality.

It is undeniable, however, that from electronics to packaged noodles, consumer goods are beginning to be big business in India. Estimates by Indian businessmen and foreign companies displaying a new interest in India place the size of the consumer market as high as 150m people.

The accelerated pace of urbanisation in the country has been accompanied by a rise in disposable incomes as the economy has become more buoyant in recent years. Changing tastes and demands among India's urban population have been reinforced and shaped by an assault of advertising for consumer goods.

Japanese companies have recently carried full-page advertisements in Indian newspapers for consumer goods which are banned for import into the country.

As more Indians have travelled abroad, particularly to the Gulf, Europe or the U.S. for employment opportunities, they have returned laden with consumer durables for their families, bringing in fresh tastes and creating new needs.

Although the great rural/urban divide in the country has reflected very different tastes within a huge population, advances in communication, and particularly the onset of television, have made it easier to market a common product.

"Until very recently you could not reach more than 25m people in the country through advertising and newspapers. A revolution in television in the past two years has made it possible to reach 70m. The new media has cut across traditional barriers," comments Mr V. Narayanan, chairman of Pond's (India) Ltd.

When the Indian Government allowed the widespread import of colour televisions for a short period before the Asian Games in New Delhi in November 1982, India displayed an almost insatiable demand for them.

Necessities

The new Prime Minister, Mr Rajiv Gandhi, has made it clear that he believes consumers must be provided with basic necessities and a choice of quality products. As his Government takes decisive steps to liberalise the economy and encourage foreign collaboration, foreign companies are beginning to take another look at India.

Recent changes in economic policies stop well short of opening the door wide, however. They are designed to provide the import of high-technology to meet needs that cannot be met indigenously. In the field of electronics, encouragement will be given to the manufacturing of consumer items such as digital watches, video recorders and microwave ovens.

Companies attracted so far range from electronics to those, such as PepsiCo and possibly Coca-Cola, which are interested in tapping the vast consumer market for their bottled soft drinks.

PepsiCo provides an example of a slow, cautious approach to the changing Indian laws on foreign collaboration. The company spent eleven years evaluating the Indian market. At the end of April it submitted a formal application for a joint venture with Duncans Enterprises of Calcutta, owned by the R. P. Goenke family, to promote drinks and fruit processing companies around India.

The operation of a fruit juice factory in the north-western state of Punjab and a strong export commitment may win PepsiCo Government approval for a project that will include the sale of its Pepsi-Cola brand soft drink nationwide.

Pepsi proposes to import the concentrate for Pepsi-Cola and set up bottling plants in India. Voltas, part of the Tata group of companies, is to be involved in the distribution.

If the Government gives PepsiCo the go-ahead, it will be taking the unusual step of allowing a foreign company to bring in a brand-name product.

Indian businessmen suggest that if Coca-Cola—which left in 1977 after a battle with the Indian Government over foreign investment restrictions—were allowed back, it would be partly because of the high visibility of the Coca-Cola brand name, drawing attention to India's new liberalisation policies.

Foreign and Indian companies alike are finding that collaboration in the burgeoning consumer market can be shown to have a crucial "high-tech" component.

The Kothari Industrial Corporation in Madras announced a joint financial and technical collaboration with General Foods of the U.S. in April to manufacture soluble coffee, vegetable-based protein products and powdered drinks.

The new company plans to market TANG instant breakfast drink in India in the future, and has already started test marketing Kool-Aid under the name Ju-C in Delhi and Bombay.

Variety

In its case to the Government, Kothari argued the need for technology which General Foods could provide, alongside the benefits of bringing nutritious inexpensive powdered beverages "well within the reach of the masses." Ju-C provides a full day's Vitamin C requirement.

The new company, Kothari General Foods Corporation, also has a 60 per cent export obligation.

Both Kothari General Foods —and PepsiCo if successful— will be taking advantage of the government's new policy of value-added exports from agricultural areas. Instead of exporting fresh fruit, for example, the policy aims to minimise spoilage and increase employment through processing and packaging activities.

Other Indian companies have also been quick to tap the consumer market. Richardson-Hindustan, a Bombay-based company in which Richardson-Vicks of the U.S. has a minority share, is excited about its plans to market ayurvedic over-the-counter medicines for common ailments.

Voltas, mainly a distribution company, has linked up with Johnson Wax of the U.S. and has just launched a floor cleaner-shiner called "Beauty Floor." It intends to start marketing Raid insect-killer in March-April 1986.

Voltas is enthusiastic too, about the future of "cookies" (as opposed to biscuits) in India. With their higher fat content, they are perceived as more nutritious than biscuits, and come into the category of "fast food."

India has a long tradition of "fast food"—snacks which vary from region to region and are consumed at all times of the day. But as the middle class becomes more westernised, and both husband and wife begin to work, the interest in western-style "fast food" is expected to receive a major boost.

The Indian company, Nirula's has been involved in "fast food" for over a decade. But it now faces competition from India's first foreign fast food restaurant—a Wimpy Bar in New Delhi.

The Wimpy project, including the setting up of the first restaurant and the building of a specially designed factory outside Delhi, involves an initial investment of $4m. It is franchised by two Indians from United Biscuit's Wimpy subsidiary and could provide a ready market for United Biscuits if it decides to set up joint biscuit venture in India.

Expatriates make their mark

Non-resident Indian investment

DINA THOMSON

FOREIGN collaborations in India are on the increase. But among the largest foreign investors in the country today are those who are not strictly "foreign." Non-resident Indians (NRIs), defined as persons of Indian origin who live outside India, are beginning to look to the country with more than nostalgia alone.

Last year foreign investment approval granted by the government to NRIs amounted to Rs 146m. Comparable figures for the U.S. were Rs 89m, the United Arab Emirates Rs 75m, West Germany Rs 28m, and the UK Rs 18m. Japan invested Rs 61m, almost entirely in the motor industry.

The figures, recently published in the Department of Industrial Approvals' annual report, reveal the extent of the impact being made on the industrial scene by NRIs. Their influx into the country has been very recent, and estimates of their equity investment in joint ventures have been vague.

Whereas in 1981 there was only one NRI foreign collaboration proposal approved, in 1983 the number rose from 11 the previous year to 20. Last year approved proposals jumped to 48, of which 36 were financial in nature.

Approvals

NRIs from the U.S. dominated with 19 approved proposals last year, out of a total 147 collaborations with the U.S. West Germany came a close second with 135, followed by the UK with 126, Japan with 78, France with 38 and Italy with 37 approved collaborations.

Among "foreign" collaborators in India NRIs have an advantage. A NRI is allowed up to 100 per cent equity investment in collaboration which he sets up himself, whereas foreign collaborators are not usually allowed a majority share.

Exceptions can be made in specific circumstances, such as entirely export-oriented projects.

There has, in fact, been a change of attitude towards Indians living abroad. Whereas the 1970s established the importance of "remittances" from Indians working as contract labour in the Middle East, this year's budget seeks to attract a different sort of NRI altogether.

The March budget abolished death duties, taking away an onerous tax burden of 85 per cent on assets exceeding Rs 2m. Wealth tax was brought down to a ceiling of 2 per cent, and the structure of income tax simplified so that the maximum rate is now 50 per cent.

One of the aims of these measures is to try and bring the "black" economy into the open. But they are also intended to give NRIs an incentive to return — or come for the first time—to India.

"Until now the small fish have been coming into the country but the big fish have kept out. Now — since the March budget — the big fish have started to come in," says Mr Bhupen Dalal, managing director of Champaklal Investment and Financial Consultancy (CIFCO). In October last year, CIFCO announced a link-up with Hill Samuel to invest NRI funds, mostly in the international bond market. It has said it will invest up to 15 per cent of the funds in India. This is one of several tie-ups being arranged by British merchant banks in India to handle funds of Indians living abroad.

India's courtship of NRIs began rather feebly in 1976 when they were allowed portfolio investment with various restrictions. At that time the definition of an NRI was established as "a person of Indian origin," regardless of nationality.

Rules on portfolio investment were eased in 1982, as part of a widespread effort by the government to offer NRIs an attractive investment package, the issue suddenly became controversial when it became clear that there were no safeguards.

Mr Swraj Paul, a British citizen set in motion an extensive market raid in India through his Caparo group of companies early in 1983. After considerable confusion, the government placed a 5 per cent equity limit on NRI portfolio investment. Mr Paul still has a case pending with the Supreme Court which is due to be ruled on in July.

More recently, Mr M. R. (Mano) Chhabria, a Dubai dealer in Sony electronic equipment who has invaded India's business world, has raised controversy over his $26m purchase of a 38.7 per cent stake in Shaw Wallace.

The suspicion that NRIs are recycling Indian "black money" for themselves or partners living in India by purchasing shares casts a shadow over the involvement of NRIs in the country's economy. Many businessmen argue however, that the benefits far outweigh the pitfalls.

Fifty per cent of all funds deposited in Indian banks is advanced to trade and industry, with the balance in government securities and deposits with the Reserve Bank. Businessmen argue that with $2bn-$3bn in remittances coming from the Gulf alone, India has long needed to encourage NRI investment rather than turn to the International Monetary Fund (IMF) for a $5bn loan as it did in 1982.

In 1984, between $5bn and $6bn from NRIs flowed into Indian banks, attracted by high deposit rates on foreign currency term accounts.

For NRIs who want to start a first or second business in India, the problems remain considerable, however. "They find it very difficult to work in India and get lost in a maze of rules and regulations. Some adjust but others do not," says a senior banker.

Mr Vashu Ramsinghani, a 41-year-old businessman who made his fortune in property and trading in the Middle East and the U.S., is one of those who expects to adjust successfully. After 12 years outside India, since 1973 Mr Ramsinghani has been setting up one industrial plant virtually every year.. He is now setting up a large petrochemical company — Rama Petrochemicals, with German technological collaboration.

The company was formed in January, with a total investment of Rs 250m. Mr Ramsinghani expects production to begin in October-November 1986, and he has plans for a further petrochemical project.

"Now is the perfect time for any non-resident to come back to India. Anyone who does not come back in the next two or three years will miss the boat," he says.

The success of the government's efforts to build a competitive economy with a new climate for industry is expected to influence strongly the levels of future NRI investment. Like much of Asia, India has suffered from losing some of its best minds to the West. A major influx of expertise could radically change the country's economy.

"There is no reason to believe that Indians will put money into India because of patriotism," says Dr A. C. Shah, general manager of the Bank of Baroda in Bombay. "Political stability and steady growth are the two most important factors in attracting investment. Now we have to see if the policies we have initiated can work."

U.S. REMAINS TOP OF LEAGUE

A BIG JUMP has taken place in the number of foreign companies seeking to enter into collaborative projects with Indian partners. Last year the Indian Government approved a total of 752 foreign collaborations compared with 673 in 1983.

An acceleration in the government's economic liberalisation policies has been responsible in the main for ensuring that the trend is continuing upwards. Whereas technical collaboration remains the most popular with foreign companies—472 last year—there are indications that foreign collaborators may be warming to equity investment in Indian projects.

At the same time, India's recognition of its need for foreign investment has been tempered by its determination for self-reliance. The new Prime Minister, Mr Rajiv Gandhi, has, while opening the door to foreign collaboration a bit wider, made it clear that India intends to tap foreign companies for what it needs most—specifically high technology.

The U.S. remains top of the league in terms of collaboration in spite of some impatience by U.S. businessmen with Indian procedures. Other foreign businessmen also find difficulty in coming to terms with bureaucracy, and the slow pace at which the country functions.

In the wake of the liberalisation policies, South Korea and Taiwan, too, have expressed an interest in doing business in India.

Rajiv Gandhi's new approach, seeking industrial efficiency, has yet to be tested

Pride in social balance sheet

"YOU CANNOT look at the public sector purely from a profit and loss angle—you have to draw up a social balance sheet," says Mr Harbans Singh, Director General of the Bureau of Public Enterprises, a grouping of all public sector industries.

The chairmen of a substantial number of India's public-sector companies seem to agree, taking pride in the traditional public sector role of providing employment and encouraging the creation of a wider economic base by investing in so-called "backward areas."

The new Government has yet to spell out its policies for the public sector, but Prime Minister Rajiv Gandhi has made it clear that he would like to see greater industrial efficiency. Some businesses in outdated labour-intensive industries "must be allowed to die," he says.

The adherence by many senior officials in the public sector to social welfare priorities may make life difficult for a new government which is hoping to change the public sector ethos. There are, of course, public sector officials who believe that productivity must be a higher priority than providing jobs, but such sentiments are still expressed with hesitation.

Any signs of a new approach still have a long way to go before they penetrate the actual workings of the public sector, and it is too early to say just how successful Mr Gandhi will be.

The Prime Minister has taken a particularly tough line against managers and financial institutions involved in companies which become serious loss-makers, or "sick units," as they are known in India.

Private sector companies which have become "sick" have, in the past, been taken over by the Government, which has then wrestled with their difficulties with only the occasional measure of success.

Protect

"The decision to nationalise a unit has in the past been a purely political decision, with no economic justification. It has been done to show the government is acting, it is pro-labour, it cares about the people," says Mr Singh.

Senior Government officials suggest that in future the government may be a great deal more cautious in taking on "sick" units. But chairmen of public sector companies continue to support the Government's role in the past.

"In order to protect employment the Government has had to take over industries. They are then more like hospitals, but the Government is blamed for their losses," comments Mr K. Krishnamurthi, chairman of Hindustan Petroleum Ltd.

No senior public sector official will deny that there is gross overmanning in its industries. Mr Singh estimates it to be at least to the extent of 25-30 per cent, and possibly more.

Public sector dominates the economy

DINA THOMSON

"The British steel industry went through an awful period after the war and retrenched 7,000 people—we just can't do that," insists Mr Natwar Singh, Minister for Steel.

There is widespread recognition of the need for the public sector in the areas that are spelt out as reserved for public sector industries in the government's industrial policy. These areas include national security, sectors which require large amounts of investment such as steel and those which are judged as development needs.

"It is the nature of things that the public sector will always have to go to areas where the going is tough. But today the government does not have to be in certain areas where the private sector could manage," says Mr Harbans Singh.

At the same time he does not believe that the Indian people would accept a move by the government to privatise industries that are now in the public sector.

The public sector in general is expected to make a total net profit of Rs 9,580m (£637.5m) in the financial year ending March 31, 1985, but the number of enterprises actually making a profit is few.

With the exception of a few public-sector manufacturing companies—including Hindustan Machine Tools (HMT), Bharat Electronics, Indian Telephone Industries and Hindustan Cables—the majority saw losses or marginal profits in 1983-84.

Out of 217 public-sector companies, about 50 are "sick" companies which the Government has taken over. Of these, only a few, including Andrew Yule, Jagan Jute, Machinery, Balmer Lawrie and Blecco Lawrie have turned the corner under Government management.

Oil and gas earnings continue to dominate the profit-making capabilities of the public sector. In 1983-84 the Oil and Natural Gas Commission (ONGC) led the way for the top ten profit making enterprises for the second year running. Its pre-tax profit of Rs 16,076m amounted to 53.27 per cent of the total pre-tax profit earned by profit-making enterprises.

ONGC's sister companies, Oil India, and Indian Oil Corporation, ranked second and third, with pre-tax profits of Rs 1,979m and Rs 1,440m, respectively.

Of the total pre-tax profit of Rs 30177m earned by 110 profit-making public sector enterprises in 1983-84, 78.26 per cent was contributed by the top ten enterprises. The remaining 102 companies were loss-making in 1983-84.

"The public sector has been unfairly judged. Given its other aims, financial results should not be the sole criterion for judgment," suggests Mr Waris Kidwai, secretary of the Standing Conference On Public Enterprises (SCOPE), an organisation representing public sector industry.

In its Seventh Five-Year Plan, India intends a public-sector investment of Rs 1,800bn, despite a serious lack of funds. Of the total losses of Rs 10,003m incurred by the public-sector in 1983-84, 65.25 per cent was accounted for by ten enterprises.

"You have to live with overmanning to some extent—and for some time," says Mr Harbans Singh. "You have to try to curtail the workforce while increasing investment, reorienting production and diversifying to absorb more people in different activities."

The Government is now actively encouraging industrial diversification in the public sector. But although there is a growing desire to draw a line on projected losses in the future, widespread constraints on productivity remain.

Judged

Senior officials in the public sector do not deny the existence of political interference and the restrictions imposed by short-term appointments with no clearly defined parameters of individual responsibility.

But they suggest that the existence of such "apologia" in the system makes it virtually impossible to detect true incompetence.

While the need for more professional management with the freedom to take initiatives and be judged by them is widely recognised in the public sector, there is still a great deal of scepticism regarding the possibilities for change.

"Mr Rajiv Gandhi says he is going to keep track of the operations of public sector companies on a computer," says a senior public sector official. "But that technique is not going to tell him how they function—or change the way in which they function. There is no sign that the culture of the Government or the decision-making process has changed."

Steel sector's performance

Profit/loss for integrated steel plants (Rupees in crore)

	1980-81	1981-82	1982-83	1983-84	1984-85 projection
Bhilai	17.81	68.09	19.95	−2.83	profit
Bokaro	−17.20	6.54	18.09	0.55	profit
Rourkela	−13.97	−21.72	−74.99	−100.32	profit
Durgapur	−8.44	0.70	−44.23	−63.73	loss
IISCO*	−28.79	−37.11	−71.05	−24.36	
TISCO	26.46	77.65	44.87	26.01	
SAIL†	1.01	39.17	−105.76	−214.53	

* Indian Iron and steel company, West Bengal. † Includes (i) Alloy Steel plant, Durgapur; (ii) Salem steel plant and other units.

Source: Ministry of Steel.

The public sector plants have moved into profit but they are chronically under-utilised

The circle that cannot be squared

THE PROBLEMS facing the Indian steel industry are likened by one foreign expert to a circle that simply cannot be squared.

A shortage of cash prevents the rapid modernisation and rehabilitation of plants that are 25 years old, while delays result in the escalation of costs.

India's five public sector integrated plants suffer from a chronic under-utilisation of capacity producing, in broad terms, about two-thirds of overall capacity.

Most of them are in desperate need of modernisation and rehabilitation, but the Steel Ministry's budget for 1985-86 has been cut by over a third from Rs 14,300m (£953m) last year to Rs 9,250m this year.

The public sector steel industry as a whole made a modest profit estimated at Rs 500m in the financial year ending March 31, 1985. The previous year saw losses of Rs 2,140m, with the Indian steel industry reflecting the world-wide steel recession.

After exceeding its steel production target of 9.17m tonnes for last year, the Government is aiming for a comfortable overall private and public sector production target of 9.9m tonnes in 1985-86. It anticipates a demand of over 20m to 25m tonnes a year by the end of the century.

The Steel Authority of India (SAIL) has been instructed to stop exporting steel in order to make sure that domestic demand is satisfied, and India intends now to meet that demand by modernising its existing plants rather than increasing capacity.

The only major new plant is the 3.4m tonne integrated steel plant being built at Vishakhapatnam on the east coast (also known by its anglicised name Vizag) with initial Soviet collaboration. It is expected to come on stream this year, a long way behind schedule.

But Mr Natwar Singh, Minister for Steel, says that even if Vishakhapatnam and a new plant which might be built at Vijayanagar, in the southern state of Karnataka, were to operate at full capacity, India would still need to import steel at the end of the century.

There has been no concrete action on the Vijayanagar plant since the late Prime Minister, Mrs Indira Gandhi laid the foundation stone 13 years ago as a political gesture.

Capacity

Nor has there been any action on the steel plant in Orissa, originally to be sited at Paradip and then moved inland to Daitari, which was awarded briefly in 1982 to Britain's Davy Mckee in a $125bn turnkey contract that was cancelled.

It is now inconceivable that either Vijayanagar or Daitari will be built as old-style integrated steelworks, but one or the other might go ahead on a smaller scale, possibly using a coal reduction process developed in Austria and Germany by Voest-Alpine.

The Seventh Five-Year Plan for steel is essentially one of "consolidation," says Mr Singh, with Vizag targeted to add 1.5m tonnes to capacity by the end of the decade.

The Government has plans to rehabilitate both Durgapur and the integrated steel plant at Rourkela in Orissa, built with German assistance in 1959. But there is unlikely to be enough money to keep Vizag going while modernising the other two plants. As Vizag has been built with Soviet collaboration, the political compulsions for completing the job are considerable.

India now appears to have ruled out modernisation of either Rourkela or Durgapur on a turnkey basis and intends to maximise Indian participation.

West Germany is still involved with Rourkela and Britain has held repeated discussions with the Indian Government on aid for Durgapur. But no major orders are imminent and the UK's offer of a £100m aid package is no longer under discussion.

India's only private sector integrated unit, Tata Iron and Steel (TISCO), in which Tata exercises management control, has plans for modernisation while gradually diversifying into engineering and possibly coal derivatives. Several major steel price rises introduced in the last 18 months by the government have made more funds available.

Mr S. A. Sabavala, director of TISCO, says "we have been telling the government that if you do with the public sector as you do with us—leave us alone provided we keep within the four corners of policy—they will do a much better job."

Productivity

TISCO has had advantages over the public sector. It has had continuity of management and has its own coalfields which produce coal with a 17 per cent ash content, well below the 20-23 per cent in the Indian coal used by SAIL.

The "extremely good ash with a very high coal content," as it is despairingly described, aggravates the public sector's productivity problems. Labour unrest particularly in Bihar and West Bengal, comes as the final straw to undermine the task of improving capacity utilisation.

A six-week strike in the Bokaro integrated steel plant in the north-eastern state of Bihar with two furnaces out of five working, fizzled out last month with a loss of 60,000 tonnes of steel.

"The cumulative effect of losing by-products and inventory build-up could be quite substantial, possibly Rs 400m," says Mr Natwar Singh.

Industrial relations have not been a strong point in the public sector steel plants. Mr Bagaram Tulpule, a former general manager of the Durgapur steel plant, built with British assistance in West Bengal in 1960, places blame firmly with the Government.

"For political reasons the Government kept wanting to take a soft line in most public sector steel plants. So the trade unions started to feel they could push management around and support for local management faced with unpleasant situations was conspicuously lacking," he says.

Senior public sector officials do not deny that over-manning remains a significant problem, but stress that it is productivity which needs to be improved. Mr Tulpule suggests that with plants built on a turnkey basis, the exact operational parameters are not always fully grasped by Indian managers.

With long delays in project decisions and funding approvals the steel sector continues to inch towards modernisation.

"We have turned the corner after two years of losses," says the ever-optimistic Mr Samarapungavan, chairman of SAIL.

One foreign diplomat comments: "It takes so long to complete the modernisation process that when you are finished, the economic base for it has changed."

Steel sector's cash shortages

DINA THOMSON

The tea crop this year could reach a record 655m kg

Plea for more incentives

THE INDIAN Government is worried that the value per unit of tea exports is falling. In 1984, the country earned its highest ever unit value of Rs 34.69 (£2.30) a kilogram and the export earnings from tea rose to a record Rs 7.45bn. That record is unlikely to be repeated.

The Government thinks that if the industry concentrates more on value-added items—such as instant tea, tea bags and packet teas—part of the expected fall can be made up. But the industry says there is a limit to what can be done about raising value-added tea exports. In any case, it says that the Government's incentives should be more liberal and match those of Sri Lanka which has been exporting on an average some 30 per cent of its output in this form, against India's bare 3 to 4 per cent.

India exported nearly 215m kilograms in 1984. But for a Government-imposed ceiling on exports the figure would have been much higher. The ceiling for 1985 is 220m kilograms, although a great deal will depend on the final size of the crop.

According to reports so far, India could well achieve the target of 655m kilograms because the extra output involved is only 10m kilograms, for which the industry has sufficient potential already. The crop in 1984 eventually came up to 645m kilograms, far ahead of the target and some 58m kilograms more than the crop of the previous year which also was 28m kilograms more than that of 1982.

Thus, India has produced an additional 86m kilograms in just two years which, for example, is equal to three-quarters of Kenya's peak production or the entire production of the rest of Africa and that of Indonesia, half of Sri Lanka's total output and double of Bangladesh's best annual crop.

Tea Industry

P. C. MAHANTI

The industry's claim that it has built up the necessary productive protential with funds mostly from its resources is, thus, convincingly proved. According to the India Tea Association figures, the estates invested 80 per cent of a total of Rs 2.9bn in various forms of garden development between 1971 and 1981.

In 1983-84 alone, it has invested Rs 1.36bn in a crash programme to raise production quickly.

However, the growth rate in production and exports visualised for the Seventh Five-Year Plan now starting will require investment on a much bigger scale than the industry can find from its own resources.

Recognising this the Government's Budget for 1985-86 allows tea companies to set aside 20 per cent of their pre-tax profits for building a special development fund which can be drawn on in years when the industry is not prosperous or is making inadequate profits. The industry has hailed this as a great concession, but would like the rate of agricultural income tax levied by the producing States appropriately reduced to get the full benefit of the Central fiscal relief.

The Seventh Plan development programme for tea aims at raising production to 760m kilograms and exports to 281m kilograms in order to maintain the country's present share of 28 per cent of the world market. The programme involves an investment of Rs 9bn, one third of which the industry is required to provide. The balance will come from public financial institutions, the Tea Board, banks and from the National Bank of Rural Development which has been set up specially to look after agro-industries such as tea.

Tea prices have started falling. But providing the price does not fall below 1983 levels, the industry will continue to earn profits, though at a lower rate, according to Mr Mumtaz Ahmad, the immediate past president of the Indian Tea Association. A bouyant and growing domestic market is keeping up the industry's morale.

India's tea production

Exports, domestic retention, auction prices and export realisation per unit

Year	Production kg m	Average auction prices Rs a kg	Exports kg m	Value Rs a kg	Retention kg m
1980	569.65	13.60	224.026	19.15	345.524
1981	560.041	13.94	241.246	18.00	318.795
1982	560.732	15.60	189.896	18.70	370.836
1983	588.77	23.92	208.976	24.70	380.293
1984	645.297	28.59	214.928	34.69	430.569

Source: J. Thomas and Co., statistics department.

Automotive industry production

	1982	1983	1984	1985*	1986†	1987†	1988†	1989†	1990†
Two-wheelers	528,000	632,000	787,000	937,000	1.12m	1.3m	1.48m	1.66m	1.85m
Passenger cars and utility vehicles	42,000	43,000	46,000	78,000	100,000	110,000	125,000	135,000	140,000
Commercial vehicles	90,000	86,000	88,000	106,000	120,000	140,000	160,000	180,000	195,000

* Target production. † Anticipated demand.

Source: Department of Heavy Industry; reports, 1984-85.

Consolidation period follows expansion

AFTER THREE hectic years of rapid expansion, dominated by technology from Japan, India's motor manufacturers will soon settle down to a period of consolidation.

Virtually every Japanese manufacturer of two-wheelers, passenger vehicles and commercial vehicles, has signed agreements for production in India in the three years since Maruti Udyog, a company owned by the Indian Government, set the pace with a 800cc car tie-up with Suzuki.

Ironically, it is only potential producers of passenger cars and four wheel drive vehicles who have major investment decisions outstanding. Various companies, including Ashok Leyland, Mahindra and Mahindra, Telco, Bajaj Tempo and DCM (formerly Delhi Cloth Mills) are considering using relaxations in the Government's licensing system (called broad banding) to diversify into passenger cars from other four-wheeler production.

The Indian Government is unlikely to issue any more production licences. Car production has been licensed for 200,000 vehicles a year. But this can go up under the broad-banding concept with producers of other four-wheel vehicles switching some of their production to cars.

A total capacity of about 4m a year has been licensed for two wheelers although the Government's projected demand for 1989-90 is only 1.8m.

The total licensed capacity for commercial vehicles is 315,000 against a projected demand in 1989-90 of 195,000.

But the major task facing the industry is to develop a range of component manufacturing plants which can supply goods at the speed and quality required by Japanese companies such as Suzuki, Honda, Nissan, Toyota and Isuzu.

Until the Maruti car project became a clearly permanent and viable business last year, few new component manufacturers were prepared to lay down large investments.

Motor vehicle production

JOHN ELLIOTT
New Delhi

So many of the products are still unreliable, in line with the quality which the Indian public has accepted for nearly three decades on the country's two old passenger vehicles: the Ambassador, produced by the Birla family's Hindustan Motors and based on the Morris Oxford of the 1950s; and the Padmini, based on the Fiat 1100 and produced by Premier Motors, part of the Walchandnagar group.

However, established manufacturers, linked to European companies such as Lucas, Dunlop and Bosch, have successfully sold their products to the Japanese newcomers and far fewer Japanese component manufacturers have set up in India than was feared two years ago by the Europeans.

The gap between what is being produced and what Suzuki is prepared to accept, however, is so wide that the Japanese company is likely to insist on having its five-year indigensation programme extended to seven years. So far 27 per cent of the car is being made in India, 4 per cent behind target.

Poor Indian quality is therefore playing into the hands of Japanese companies which would prefer only to assemble vehicles in developing countries, not progressively indigense production.

In addition to the Suzuki-Maruti tie-up which is now producing cars at 4,000 a month, Isuzu and Nissan from Japan have signed two-stage agreements with Hindustan and Premier, first for new engines in old models and then completely new models.

Other Japanese car manufacturers are now talking to the Indian fourwheeler manufacturers who are also in touch with European companies such as Peugeot and Mercedes, and BL's Land Rover operation, about possible tie-ups. But the Government is unlikely to sanction foreign collaborations that involve expensive purchase of technology.

The only significant European entry into the market is BL's Rover 2000 which is about to be produced by Standard Motors, an Indian-owned company in Madras. It will be turned out in low enough volume (2,000 cars in the first year and 4,000 in the second) to achieve the quality that is eluding Suzuki.

Some leading industrialists are criticising the Government for admitting too many different makes, which will make standardisation and efficient scales of production difficult. Some companies are likely to close down within a few years, possibly falling even to move out of assembly operations. Others may merge.

But, from the public's point of view, there is for the first time since independence a buyers' market in the India automotive sector.

Scramble for entry into a large market

IF MR RAJIV GANDHI is trying to initiate India into the 21st century, his most revolutionary step has been to make sure that the country catches up with the rest of the world in electronics, a field in which it is far behind.

He has done this by opening the industry to foreign companies and large Indian industrial houses and encouraged computerisation by Government departments and the private sector alike.

Electronics and computers

D. P. KUMAR, NEW DELHI

The new electronics and computer policies of the Indian *Government* have attracted sufficient interest among foreign companies to cause a near scramble for entry into what is undoubtedly a large market. Indians are hearing names they had noted only in advertisements in foreign magazines while hundreds of companies and organisations enter with zest the wonderland of electronics and computers.

Local electronics and computer companies, which had made investments in what they considered a sheltered area, are fearful of the competition but many are taking advantage of the new liberalisation by entering into collaboration and joint venture agreements. They envisage rapid growth. Usha Microcomputers, for instance, hopes for a 12-fold growth in the next five years.

Some big foreign names are showing interest. Hewlett *Packard of the U.S. and Seimens* of West Germany are negotiating entry into the manufacture of mini and personal computers.

Burroughs of the U.S. may also join in. Indian firms like India Control Data Corporation, Data General, Digital Equipment and Prime Computers are gearing up for the time after November 1986, when reservation in favour of the Government-owned electronics corporation comes to an end.

There are, in fact, 27 Indian computer companies, many of them with collaboration agreements with units in the U.S., Britain, France and West Germany, and even the Russians are trying to get into the act.

The potential market is huge. The *domestic Indian Airlines* has belatedly started a much-needed computerised booking service. The giant Oil and Natural Gas Commission is to computerise its operations with a large capacity IBM 3083. Mr *Gandhi has ordered all* Government ministries and departments to be linked to a central system and senior civil servants are somewhat uneasily learning what to do with terminals. Schools are teaching computer science and new jobs are being found as thousands of companies computerise operations.

The new rationalised computer policy, announced a *few* months ago, will try to enable manufacture in the country of computers based on the latest *technology, at prices comparable* with international levels and progressively increase indigenisation.

It simplifies existing procedures to enable users to obtain computers meeting their requirements, either from within the country or abroad. It also seeks to promote appropriate applications of computers which *are of development nature*, with due regard to long-term benefit of computerisation to the country *as a whole*.

To catch up with the rest of the world and improve technology and lower costs in the electronics industry, the Government is trying to initiate its new policy that has generally liberalised the licensing policy and avoided controls, with no upper limits on capacity and no restrictions of sectoral nature except where *specific* reservations are made on special consideration.

Stress

Internal production is being encouraged as far as possible, but components which are not produced in the country will be allowed to be imported at low import duties. Stress is being laid on quality and reliability.

Official estimates are that total electronics production in 1984 was worth Rs 18.9bn, *nearly 40 per cent higher* than in the previous year.

Consumer electronics registered *the highest growth* at about 78 per cent, followed by component at 32 per cent and computer control and instrumentation at 30 per cent.

But the Indian electronics industry is still small by international standards. Realising the importance and criticality of electronics to national development, a fairly ambitious target of *Rs 100bn* has been laid down for 1990, the terminal year of the seventh Five-Year Plan.

So far, India has imported nearly 35 per cent of electronic requirements and this has enabled a substantial expansion of the television network, satellite communications facilities and expansion and digitalisation of a telecommunications network.

If future plans are carried through, officials hope there will be a further rapid expansion and a quantum jump in electronics.

Soldering circuits at a Madras factory

Gap grows between supply and demand

Demand for machine tools

DINA THOMSON

Scraping the bearing on a cylindrical grinder at *Hindustan Machine Tools, Bangalore*

THE INDIAN machine tool industry is still awaiting the revolution that will take it firmly into the manufacture of memorically-controlled and computer numerically-controlled (CNC) machines for which demand is steadily increasing.

Although India succeeded in *bringing down its import* requirement for machine tools from 80 per cent shortly after Independence in 1947, to 30 per cent today, the technological gap between domestic demand and the availability of machine tools is growing. Of the 30 per cent now needed, two-thirds are numerically controlled and CNC high-precision specialised machines.

"The Indian machine tool industry lost five or six crucial years between 1976 and 1981," says Mr S. Kanungo, a joint-secretary in the Department of Heavy Industry. The slowness of the user industries' recognition of the relevance of NC and CNC machines has been both mirrored and matched by the machine tool manufacturers' lack of willingness to manufacture high-technology machines.

While there are more than 2,000 manufacturers of conventional machines, Hindustan Machine Tools (HMT), a public-sector company which is India's largest machine tool manufacturer, *remains one of just three companies* making the control panels for CNC machines.

HMT is well known for its innovation and willingness to go into technologically more advanced machines. But although Kirloskar and Bharat Fritz Werner in the private sector also make CNC systems, the manufacture of such control panels is described by a senior official in the government department of heavy industry as "in an embryonic stage."

Some eight or nine other companies, including Mysore Kirloskar, Praga Tools and Walchandnagar (*formerly* Cooper Engineering) are manufacturing CNC machines, but not the control panels.

Reluctance on the part of the private sector to move into high technology is being only *slowly dispelled by government* policy. In July 1983 machine tools were the first industry to be made eligible by the Government for "broad-banding" whereby industrial licences for the manufacture of products were given on a broad rather than a narrow basis to give companies more managerial freedom.

A company manufacturing milling machines for example did not have to go through bureaucratic red tape again in order to obtain a licence to manufacture horizontal boring machines.

In the recent budget further liberalisation was introduced when machine tools were included in a list of 25 industries exempted from all basic licensing procedures.

The Government has also gradually eased the import policy on components for the manufacture of sophisticated machine tools. But anomalies still exist in a policy which aims to supply about 75 per cent of the country's requirements of CNC machines indigenously by 1990.

In the 1984-85 budget, import duty on CNC systems was brought down to 35 per cent to enable indigenous manufacturers to build CNC machines at competitive prices. Before that time it was considerably cheaper for a machine tool manufacturer to import an entire CNC machine rather than import the parts for assembly.

Some private sector machine-tool manufacturers feel neglected by the Government's slow changes in industrial and trade policy over the years. The *import duty on some critical* components in the manufacture of CNC machines still varies from 75 per cent to 150 per cent. However, the problem is acknowledged at the Department of Heavy Industry, which is currently negotiating with the Finance Ministry to bring that duty down to below 35 per cent.

The Department of Heavy Industry is aiming for 75 per cent of India's requirement of CNC machines to be indigenously produced by 1990. Mr Kanungo describes the target as "difficult, but not unattainable."

India's production of machine tools amounted to Rs 2,750m in value in 1983-84, a growth over the previous year of just 0.9 per cent. The Seventh Five-year Plan suggests a production target of Rs 3,150m for 1984-85, with HMT estimating its machine tool turnover in the year ending March 31, 1985 to be Rs 1,250m.

By the year 1992-93 the machine tool industry is targeted to reach a production level of Rs 17,630m. In its Perspective Plan for the machine tool industry (1983-1993), a committee headed by Mr T. V. Mansukhani, the *chairman of HMT, recommends* an average growth rate of 15 per cent per year.

The Government has reacted to pleas for more research and development in the industry by setting up the Central Machine Tool Institute in Bangalore.

Some machine tool manufacturers in the private sector express concern at what they see as a tendency for foreign collaborators in other industries to snap up machine tool orders as well.

The collaboration in the automobile industry between Maruti *Udyog* and Suzuki of Japan however, gave HMT a chance to supply it with the necessary components. It was only after HMT proved incapable of satisfying Suzuki on delivery that the company looked to Japan for its machine tools.

Dr S. M. Patil, a former chairman of HMT and a strong independent voice in the industry, is unsparing in his criticism of what he sees as the industry's lack of courage and bold management. These factors, he says, have been largely reponsible for holding back the industry.

Failure to ensure prompt execution of projects

Electric power shortages

D. P. KUMAR
New Delhi

WHEN, in the mid-1950s, India's first major hydro-electric project, Bhakra-Nangal was built with only 900 Mw capacity, the question was asked what India would do with so much electricity. In the 30 years since then, a chain of large power stations have been built but there are chronic power shortages. Industry and agriculture suffer for lack of electricity and domestic users in towns suffer in summer months with endless shut-downs.

Industry consumes nearly 60 per cent of the power generated and agriculture another 16 per cent, operating some 3.5m diesel pumpsets. Their working is hampered by acute and continuous power cuts and power remains the major constraint on India's economic growth.

The shortfall in generation is close to some 40bn or about 25 per cent of what had been planned to be completed by the end of the Sixth Five-Year Plan period, in March this year.

At the current rate of plant load factor, it means a shortfall of some 5,000 Mw of installed capacity.

During the Sixth Plan, new capacity of 14,500 Mw was installed. This has brought the total generating capacity to nearly 42,000 Mw.

But actual generation is far less, because of the low plant load factor, which is now 55 per cent, plus transmission and distribution losses. Thus, at the moment, the actual generation is around 155bn units, and in the current year (1985-86) when another 4,460 Mw is added to the present installed capacity and some plant is modernised, the generation may rise to 170bn units. There will, however, still be a gap between demand and supply.

Problems include failure to maintain the plant load factor at a high level of efficiency, transmission and distribution losses as high as 25 per cent, failure to implement projects in time leading to sharp cost escalation, and the bad financial state of the state electricity boards.

With power needs rising annually, by between 9 and 10 per cent, India will need by 1989-90 a minimum of 270bn units, which requires new capacity of 30,000 Mw costing Rs 670bn.

There is a debate on the value of hydro-power versus thermal projects. The planning commission believes that *thermal projects' short* gestation periods are the answer to growing power demands. The Power Ministry thinks otherwise because Himalayan rivers have a tremendous potential for hydro-power. It has been estimated that northern state of Himachal Pradesh and Arunachal Pradesh alone could produce 40,000 Mw.

But the planning commission is concerned that the power ministry has failed to ensure prompt execution of a number of on-going hydro projects. The planning commission has ruled that money would be provided in the seventh plan for the on-going projects only.

Capacity

The department has given the warning that, with this policy, no major hydro-power capacity could come up in the eighth plan period either.

About two dozen power schemes are being examined by the central Government to see if some of these could be tied up with concessional credit-cum-equipment foreign package. Soviet assistance of 250m roubles has been indicated for Kalgaon project (840 Mw).

The National Thermal Power Corporation, which is sponsoring the major super-thermal power projects, is exploring loan assistance from the World Bank for the Talcher (Orissa) and Muradnagar (Utter Pradesh) projects.

For Muradnagar, it seems, the World Bank is agreeable to extend a loan of $353m. The World Bank has so far committed a total of $2,550m of loan assistance to NTPC.

Three natural gas-based power projects on the 1,718 km HBJ gas pipeline have also been posed to the World Bank for assistance.

Forced to change down a gear

Puzzle for the coal industry

P. C. MAHANTI
Calcutta

THE INDIAN coal industry kept up a high 6 per cent annual rate of growth in production during the Sixth Plan period for 1980-85 which ended in March.

Coal India which accounts 90 per cent of the country's production contributed almost all of this growth. It raised production from 100.8m tonnes in the initial year 1980-81 to 130.8m tonnes in 1984-85.

But just when it was getting geared to step up the growth *rate to achieve the higher* Seventh Plan annual production targets, an adverse development in the form of an abnormal accumulation of pithead stocks at 30m tonnes—the highest in its ten-year-old history—has forced it to change down in gear.

Coal India has decided to produce just under 137m tonnes instead of over 140m tonnes. Coal India was at first puzzled that having supplied all its major customers—the power and steel sectors and cement and other industries—their stipulated requirements for 1984-85, the pithead stocks were mounting, while industries in the far-off northern, southern and western regions were complaining about serious shortages.

The despatch figures revealed, however, that the railways carried appreciably less coal during 1984-85 than they did in the previous year when Coal India produced only 121.46m *tonnes. Ironically, the industry* has the development of a coal mountain, amidst an extensive unsatisfied demand.

If what the observers claim is correct about the railways' diminishing carrying capacity, due to growing obsolescence of rolling stock, then the pithead stocks may well increase further, while coal scarcity in some parts of the nation will worsen.

The railways are said to have expressed their inability to carry the required 225m tonnes of coal during the current year. Instead, they say they can manage a maximum of 115m tonnes which is, however, a big improvement on the 103m tonnes carried in 1984-85. Since the railways carry about 75 per cent of the coal produced in India, some alternative forms of transport (by sea or road) *will have to be arranged to* carry at least 10m tonnes which the rail system is unable to handle.

Since distribution is a key part of the coal production process, it is clear that the expansion of the coal industry, especially in the Seventh Plan, which has just started, will depend on how the transport problem is solved.

Due to massive investments in the Sixth Plan and before, a production capacity of 221m tonnes has been built up and this will rise further, following heavy investment proposed *during the current plan*.

The Seventh Plan programme of coal production has not been finalised, but the tentative figures are:

Year	Total industry tonnes(m)	Coal India
1985-86	152.00	137.00
1986-87	193.45	169.80
1987-88	209.72	183.07
1988-89	228.40	200.70
1989-90	248.30	217.60

Considering the potential for increasing production already built up, it is well within the industry's capability to produce these annual targets. However, a notably weak area will continue to be coking coal, of which the known reserves are limited. The ash percentage is often too high for the steel industry, its principal user. There is a running quarrel between the Steel Authority of India and Coal India as to the exact percentage of ash in the coking coal. The steel sector maintains, that, for the most part, it is 25 to 28 per cent while Coal India claims that the weighted average of ash is now only 19.92 per cent. Both sectors have recently agreed to new joint-sampling procedures.

Coal production and investment

	Total industry	Production (m tonnes) Coal India	Investment (Rs m)
1980-81	114.0	100.9	3,810
1981-82	124.2	108.9	6,260
1982-83	130.5	114.8	7,840
1983-84	138.2	121.4	8,940
1984-85	142.0*	130.8	10,050

* Provisional
Source: Government estimates.

Farmers score remarkable success

Prospects for agriculture

D. P. KUMAR

AGRICULTURE HAS been India's remarkable success story in an otherwise slow-moving economy. It looks all the more spectacular because the achievement in this field has been mainly the result of private initiative, though boosted by the state which has helped farmers with major irrigation works, numerous fertiliser factories and research laboratories to provide the farmer modern techniques.

High-yielding variety seeds have been provided, a variety of farm subsidies introduced. Agricultural income is also exempted from taxation.

At the time of Independence, India's foodgrain production was about 50m tonnes. Now it is more than 151.5m tonnes, a three-fold increase in a little more than three decades. In that time the population of India has doubled from around 350m in 1947 to over 700m. So, there is a little more food to go around for the people, though not yet enough.

There are always areas of chronic shortages. India has stopped importing foodgrains and has even begun making token exports of grains to some Gulf countries.

A stage has been reached when a noted economist, Professor Raj Krishna, is asking for less stress to be laid on the "economy's star performer," the agriculture sector. This is against what the Seventh Plan (1985-1990) Approach Paper proposes. India has achieved a long-term agricultural growth rate of 2.6 per cent over the last 15 years. This is higher than the U.S. growth rate of 1.8 per cent.

Prof Raj Krishna suggests a lower investment on the agriculture sector than is proposed by the planners. He thinks it would be better if the present growth rate is sustained, rather than targetting for a 4 per cent rate in the Seventh Plan, whereby grain production would reach a minimum of 185m tonnes in the terminal year of the Plan.

His view is that it is the industrial front that needs to be given more attention, because it is there that the growth rate is not satisfactory.

The first major spurt in grain production, part of the "green revolution" took place in 1967-68, but was confined mainly to a few "progressive" areas of Punjab, Haryana and west Uttar Pradesh. The "revolution" then continued strongly in the Punjab. The second record grain crop of 151.5m tonnes came in 1983-84 and was the result of various measures to boost output in the eastern and central states, including eastern Uttar Pradesh, Bihar, Orissa, West Bengal and Madhya Pradesh, where growth rates had been previously relatively low.

A buffalo dairy farm near New Delhi

Production targets are now being raised, not only of cereals, but also of other farm products; pulses, oilseeds, sugarcane, potatoes and even fruits.

The new strategy, according to Union Agriculture Minister Mr Buta Singh, is to give more stress on dryland farming as well as general irrigation. The irrigated area in India is less than 20 per cent of the total cultivable land, and though this is being expanded from year to year, the return is not commensurate.

Nearly 45 per cent of the increase in grain output and nearly 75 per cent of oilseeds and pulses has come in these years from drylands or rain-fed areas. A step-up in dryland farming, research institutes are asserting, is capable of raising production in rain-fed areas by almost half.

Mr Buta Singh thinks that with an investment of Rs 4,000-Rs 5,000 per hectare, a major improvement can be brought about in dryland farming. A new technology of rice production, under conditions of controlled irrigation and improvement of "land treatment" if adopted, can even treble the present productivity.

Production of larger and larger quantities of cereals is not everything for Indian agriculture, which has to grow more of other products such as oilseeds, sugarcane, cotton and jute and mesta for the "revolution" to be truly green. India is importing huge quantities of sugar, cotton and edible oil.

The British were interested in cash crops such as cotton oilseeds, tobacco, rubber and sugarcane. Hence, research was conducted in these crops during the British days in India while research in food crops was neglected. As a result India, had turned into a grain-deficit nation by independence in 1947.

After independence, it was these other crops that experienced the worst deficiency and attention was turned to growing more and more wheat, rice and other grains. The pricing policy of sugarcane or cotton was such that it did not encourage the farmer to grow more of these crops, which has now obviously to be rectified if more production is desired.

Production targets in the Sixth Plan have not been achieved for pulses, sugarcane, cotton, jute and mesta. The area, production and yield of pulses, a vital food item which is the only other item that probably many Indians can afford to eat with rice or bread, was at its highest in 1975-76. As for oilseeds, the peak level of productivity was obtained only in 1975-76. For cotton, the highest production level was in 1978-79 and it has not been increased since then.

Output has almost doubled

Natural gas industry

R. C. MURTHY
Bombay

PRODUCTION OF natural gas in India has nearly doubled over the past five years to 4.32bn cu metres in 1984-85 from 2.258bn cu metres in 1980-81. The entire quantity is associated gas from oil fields. Free gas fields that have been discovered have yet to be exploited.

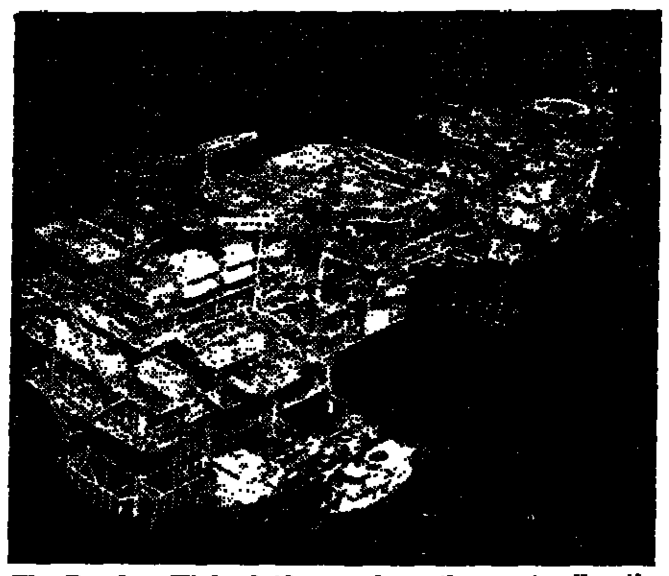
The amount of associated gas available is greater than had been expected. This is partly because India is trying to boost petroleum crude output to cut imports. In addition, the gas-to-oil ratio from Bombay High fields, which are the main source of oil now, has changed. More C1 and C2 fractions are available, allowing scope for additional fertiliser and petrochemical plants.

Free gas has not been tapped so far because there has not been enough demand from "priority" consumers involved in chemical fertiliser production and power generation. Non-priority customers can obtain natural gas with a rider that supply may be cut off as and when priority consumers increase their offtake.

As exploration is intensified, the Government has been updating the data on hydrocarbon reserves. Dr A. K. Malhotra, member (production) of the Oil and Natural Gas Commission, says recoverable reserves of natural gas rose five-fold in 10 years to 478bn cu metres in January this year, against 88bn cu metres in 1975.

In the next five years, natural gas output is to treble to 14.55bn cu metres. The projections envisage two Government-owned companies—ONGC and Oil India and producing 9.28bn cu metres this year, of which ONGC will account for 7.62bn cu metres and Oil India 1.66bn cu metres.

Bombay High offshore fields are to contribute nearly two-thirds (6.03bn cu metres) of 9.28bn cu metres of gas production projected for this year.



The Bombay High platform, where the gas-to-oil ratio has changed

Gas industry forecasts

	1985-86	1989-90	Seventh plan (five years) bn cu mtrs
(A) KNOWN FIELDS			
(1) Onshore:			
Krishna-Godavari	0.1	0.029	0.093
Upper Assam and Arunachal	2.08	1.97	10.06
Cambay	1.06	1.11	5.48
Cachar-Nagaland	0.03	0.11	0.37
(2) Offshore			
Bombay High (free gas)	1.83	7.67	27.75
Bombay High	4.20	4.05	21.68
(B) NEW FIELDS			
(1) Onshore:			
Tripura-Nagaland, Bengal, Cauvery, Himalayan foothills	—	0.17	0.31
(2) Offshore:			
Andaman, Krishna—Godavari and Mahanadi	—	0.18	0.31

Source: Government reports.

This includes 1.83bn cu metres of free gas, whose availability may be delayed because processing facilities at the landfall point at Hazira, in the western state of Gujarat, to remove hydrogen sulphide component, will not be ready before the end of the year.

A complex of two gas sweetening plants each of 10m cu metres per day, a sulphur recovery plant, co-generation plant to produce power and steam and a dew point depression plant to remove moisture from gas is being built at Hazira. The Bombay High gas is to be transported to the foothills of Himalayas in Uttar Pradesh through a pipeline called Hazira-Jagdishpur (HBJ) pipeline to feed a chain of six new fertiliser plans.

Cambay, in the western state of Gujarat, Krishna-Godavari in the southern state of Andhra Pradesh and Upper Assam, Tripura and Nagaland in north-eastern India will be other sources of natural gas. Industries in Andhra Pradesh are closely watching the hydrocarbons exploration. Nagarjuna Fertilisers, now based on naphtha, is ready to switch over to natural gas as feed stock for fertiliser production.

The Government-owned oil companies are planning research on alternative uses of natural gas.

● Rs 20m provision is made for exploring possibilities of converting natural gas into diesel oil.

● Using compressed natural gas at low pressure for partial replacement of kerosene, which is used widely in Indian homes.

If a break-through is achieved, gas reserves in north-eastern India would be fully exploited to increase supplies.

Prospects of fresh bids from abroad

The oil sector

K. K. SHARMA

INDIA'S OIL industry has expanded fast since the first oil shock in the 1970s but has now slowed down in the absence of any really significant new oilfields since Bombay High, in the Western Continental Shelf, came on stream.

Suggestions now being considered include invitation of fresh bids by foreign companies on better terms than offered in the last round (when the response was lukewarm) and also for tracts that are more promising and less difficult to explore. These could include some structures onshore, also. Much will depend on the final decision on these proposals for the entire oil industry.

Bombay High, explored and operated by the Government-owned oil and natural gas commission, remains the main producer. Of the total of nearly 30m tonnes of crude produced in 1984-85, as much as 20.30m tonnes came from this rich discovery.

Since then, there have been peripheral finds in the same offshore region and a few more onshore. Oil has been found at Dahej in Gujarat and Changmaigaon in Assam. Gas was struck at Rokia in Tripura and Kaikular in Andhra Pradesh.

In the offshore areas, oil was struck in structure B-178 on the west coast and KD-1 in the Cauvery Basin.

Yet, despite the intensification of exploratory work by both ONGC and the second Government-owned producing company, Oil India, progress has been markedly slow. In a sense, both companies are now resting on their laurels earned in the 1970s and early 1980s.

In fact, development of Bombay High has been too fast. The country's 12 refineries do not have the capacity to process all of Bombay High's production of crude and, for the past three or four years, a portion has had to be exported.

In 1984-85, for instance, as much as 7m tonnes was exported, mainly to the U.S., even though India still is a net importer of both crude and refined products.

This artificial position will, of course, soon change when refining capacity catches up with crude availability but it shows poor planning that was probably due to hasty contingency plans to cope with the oil crisis in the past decade.

The total refinery throughput in the 12 processing units in 1984-85 was 34.77m tonnes, ranging from nearly 5m tonnes in the Bharat Petroleum Refinery at Bombay to the 52,000 tonnes at the Assam Oil's unit at Digboi.

All 12 are Government-owned, including those run by the giant Indian Oil Corporation and three others taken over more than a decade ago from foreign companies.

The total falls short of India's requirements which are increasing at an average of around 7 to 8 per cent every year. For this reason, 6.45m tonnes of refined products had to be imported last year (from Russia and the Middle East).

Plans have been formulated to increase refining capacity. A new refinery is to be established at Karnal in Haryana State with a capacity of 6m tonnes at a cost of roughly $1bn (which includes the augmentation of the Salaya-virangam and Mathura pipeline and its extension to Karnal).

Other units are to be expanded, despite this, because India's energy needs will continue to grow, self-sufficiency in both crude production and refinery throughput is unlikely for some years and dependence on imports of both will continue in the foreseeable future.

The Government recognises that growth of the industry will depend on the rapidity with which new oilfields are discovered, particularly in areas distinct from the traditional sources in Gujarat, Assam and the Western continental shelf. For this, policy changes are necessary and are expected.

In the past there has been hardly any interest in exploration by foreign companies. Chevron, the only foreign company that started work in the Cambay offshore region, has now pulled out after drilling dry holes.

Foreign companies fight shy of bidding for tracts thrown open to them, as was the case five years ago, because they think that the really promising structures are being reserved for ONGC and Oil India. These government-owned companies have a monopoly in onshore structures where seismic surveys have been made and also the offshore areas in the Western Continental Shelf and the Mahanadi and Cauvery Basins where oil has already been struck.

Imports increase as stocks decline fast

Fertiliser consumption

D. P. KUMAR

MUCH of the credit for the success in Indian agriculture goes to the use of massive quantities of fertiliser.

The famous Nobel laureate and Professor of Agriculture, A and M University in Texas, Norman Borlaug, says: "It seems incredible that fertiliser consumption in India during 1983/84 could be increased by 21.7 per cent over that in 1982/83, to reach a total consumption of 7.8m nutrient tonnes and result in a bumper grain harvest of 151.5m tonnes."

India, along with Indonesia, have been the only countries in the Far East to register a continued growth in fertiliser consumption in recent times, according to the FAO.

Producing and importing millions of tonnes of chemical fertiliser and making it available to farmers in the remote rural areas has been a major task.

First, Indian farmers used to old methods of agriculture had to be orientated to modern methods of farming. The consumption of fertilisers doubled in 1978/79 to 5.12m tonnes over levels four years earlier. In the next four years, however, the consumption rose by only 25 per cent.

The two bad drought years, 1979/80 and 1982/83 acted as a break on the growth of fertiliser use. Then there was a record rise in consumption by 1.35m tonnes (taking the total to 7.8m tonnes) in 1983/84—and marking a break from the past trend.

The increase was due chiefly to a combination of factors: a favourable monsoon and a reduction of 7.5 per cent allowed by the Government in fertiliser prices, followed by a further discount of 10 per cent to clear the two-year-old stocks accumulated in the Food Corporation of India warehouses.

The uptrend has continued into the year 1984/85, presumably by 16 per cent or so, to a record 9m tonnes in terms of nutrients.

The adequate fertiliser stocks of two years ago have disappeared and a condition of shortage has set in. Last year, the Government had to import some 5m tonnes of fertilisers at an enormous cost of Rs 11,000m-12,000m, because with the entry of China in the market, prices hardened.

In the current year, it is estimated that an import of at least 2.5 to 3m tonnes will be necessary.

India has already created a large network of fertiliser plants across the country now producing more than 6.05m tonnes of nitrogenous and phosphatic nutrients annually. More than a dozen new plants were conceived as long ago as 1977/78 to meet the widening gap between demand and supply, and many of them are operating. But there have been delays on six giant plants, each producing 1,350 tonnes of ammonia per day, that are proposed to be run using gas from the Bombay High and Bassein offshore oilfields.

They will be located on the 1,718km cross-country HBJ (Hazira - Bijapur - Jagdishpur) pipeline. But they have been delayed by controversies on the award of consultancy contracts for the plants, and recently by changes on the contract for constructing the gas pipeline.

Snamprogetti, a subsidiary of the state-owned ENI of Italy, is winning the fertiliser plant contracts and is a major contender to construct the pipeline.

The four ammonia plants at Thal Vaishet in Maharashtra and at Hazira may be completed in a year, but the other six might not come up before the end of the decade.

Overall, at the end of the Seventh Plan (in 1989/90), the production will be an estimated 9.1m tonnes, whereas consumption by that time at current trends will not be less than 11 to 12m tonnes, leaving a gap of 2-3m tonnes to be still met through imports.

In order to achieve optimum results out of fertiliser application, the Indian authorities have linked up with the UK in the Indo-British Fertiliser education project now operating in 25 districts of six states — Assam, West Bengal, Orissa, Bihar, Uttar Pradesh and Madhya Pradesh. The project has run for 3½ years out of its five years, bringing good results.

From a field survey, it is seen that the efficient method of fertiliser use, as demonstrated by IBFEP, has brought to villages of Orissa a return of Rs9,300 as against the cost of cultivation of Rs 3,350 per hectare. The yield and the profit are "fantastic," say observers. The return per hectare by the usual method has so far been Rs 2,250 and the cost of cultivation, Rs 1,800.

Graft is being tackled by a loosening of the industrial and economic controls on which it thrives.

Moral crusade is launched

Campaign against corruption

JOHN ELLIOTT
New Delhi

IN foreign capitals, international contractors are approached by "collectors" for political bribes running into millions of pounds. In New Delhi, civil servants take black money payments for favours, large and small. In the villages of rural India, local government and bank officials illegally cream-off aid and benefits from the poor.

There is also extensive tax evasion, widespread smuggling of gold and other goods, and a tradition of baksheesh being expected for virtually every service. Taken together these forms of corruption make up a large part of India's massive and deeply ingrained black economy which has been estimated to total approaching half the size of the official gross national product.

Mr Rajiv Gandhi has launched a campaign to remove as much corruption as possible, linking this with his economic policies of loosening industrial and other controls on which corruption thrives.

Disapproval

Asked in a recent interview whether he disapproved of corruption on moral grounds or because it impeded economic and industrial development and efficiency, he said:

"I think the moral side is more important because it permeates into every part of our lives. The practical side gives us dividends."

Dividing corruption into big and small categories, he said it would be relatively easy to get at "big corruption"—that is the large amounts of money paid as bribes.

But, he added: "What is going to be much harder to control is the small chap down in the village where it is difficult for us to find out everything that goes wrong. But we are trying to build a good feedback system and a system where people will be accountable."

So far the Government has taken a number of initiatives. First Mr Gandhi removed some corrupt officials and politicians from key posts. Then he reduced industrial and other controls and cut taxes, hoping this would remove many of the causes and incentives for the payment of bribes and for tax evasion.

There have also been major attacks on smuggling of gold and other goods. Offices of diamond dealers and other businesses, particularly in Bombay, have been raided.

Political donations by companies to political parties are *to be legalised to stop* the parties having to rely for funds on black money donations from Indian companies and foreign contractors.

Civil servants and politicians know they are no longer supposed to accept bribes. One senior Government official in Delhi was offering a year ago to approve a company's industrial *project* if he was paid a substantial sum. The company refused, and its competitors obtained the approvals instead. Last month an executive from the company asked the civil servant if he would accept the bribe now and give the approval. "Oh no!" came the reply, "I couldn't do that now."

Probably the civil servant *was being honest and was not* just paying lip-service to Mr Gandhi's wishes. But one cannot be sure. This illustrates one of the problems with a war on corruption. Those who are asked to pay up, whether they are poor villagers or multinational defence contractors, can never be sure that the person asking for money has really lost his power to influence official decisions. So they are tempted to pay as an insurance, even though Mr Gandhi said in his interview that companies which did so were "being taken for a ride."

There is also now widespread public cynicism in India about tax cuts made in the Budget two months ago which helped the middle class and have consequently become politically unpopular.

"The old tax system made good people evil, but people do not see that the evil might stop if taxes are cut," says Dr Fredie Mehta, an economist and a director of the Tata group. "They need to be persuaded that lower taxes allow those people who want to be honest, to be honest."

A report prepared for the Government by the National Institute of Public Finance and Policy, headed by Dr R. J. Chelliah, a member of the Planning Commission, *explains that* the black economy is built on two types of activities. There is black money linked to legitimate activities—mainly tax evasion and avoidance on legal business transactions. Then there is income generated by illegal activities such as smuggling, the black market and bribes.

But the report, so far unpublished, is believed also to point out that the black economy plays a dynamic role in economic activity.

Lower taxes

"In an over-controlled society like India, the black economy arguably serves a necessary purpose. Black money is oil lubricating wheels of the eco*nomy because it buys decisions* and favours from inefficient, lethargic and corrupt officials who run the controls," says an economist.

The way that officials can be bought was publicly aired earlier this year when a major spy scandal was uncovered. Secret documents were being sold from the Prime Minister's office and *from other top Government* departments to an Indian businessman who pased them on to diplomats from the French and East European embassies. Most of the documents were commercial, relating to government plans and tenders for projects. But more strategic and defence-orientated documents were also handed over, initially for a bottle of whisky and then for hundreds of pounds.

International companies have often paid up to 5 to 10 per cent of a contract price to a "collector," sometimes an Indian living abroad, for pay*ment into India's ruling* Congress I Party. Such a collector would often cream-off money for himself, as would top politicians and civil servants. Services offered would range from a meeting with the late Mrs Indira Gandhi, Prime Minister, to tying up a contract. Money was paid into Swiss bank accounts and then laundered back *into India, as required.*

Smuggling has been encouraged by shortages of consumer goods. A Somalian diplomat was held at Bombay Airport at the end of April for allegedly smuggling 33 video players, six video recorders, and 100 video tapes valued at rupees 375,000 (£25,000). A year earlier gold "biscuits" worth Rs 5m were found on a Somalian diplomat, while *employees of other* embassies have been caught with heroin and electronic goods.

More than 110 tonnes of gold are smuggled into India each year for use as wedding jewellery and as forms of savings in rural areas. Most comes across the Arabian Sea in boats carrying dates from Dubai and seizures of gold, worth nearly Rs 112m, were made in the first two months of this year off the Indian coast near Bombay.

Some funds for smuggling are provided by many of the 3m Indians working abroad who receive *high rates of exchange* for money they want to repatriate home by financing the purchase of goods to be smuggled into India. Other methods of repatriating and laundering black money include, it is believed, the purchase of foreign and Indian equity stakes of Indian companies.

A lot more needs to be done before such practices stop. Mr L. K. Jha, a distinguished retired top civil servant and an advisor to *both Mrs Gandhi* and Mr Gandhi, believes the Government should make it easier for people to switch away from the black economy.

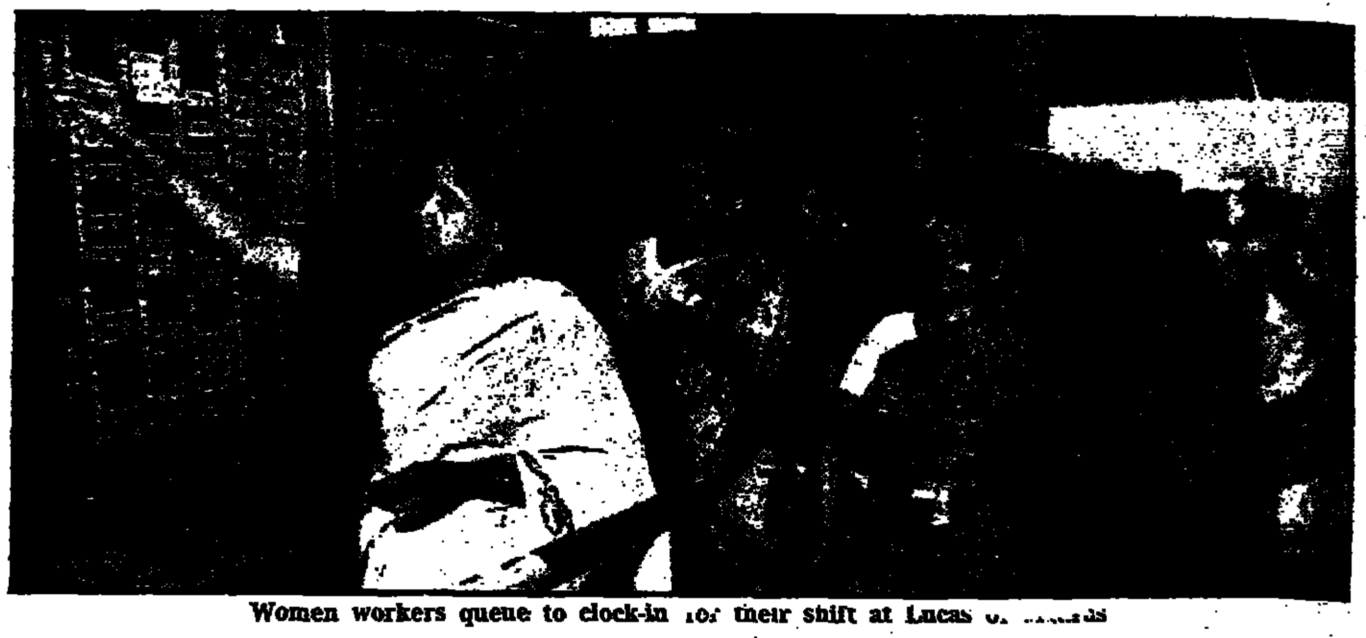
Smuggling

For example, he says, some businessmen are scared this year to declare honest tax *returns because they fear the* tax authorities will use the figures to work out how much tax has been concealed in the past. Other people are proposing an amnesty for those who declare their black market *activities*, perhaps involving a re-issue of bearer bonds sold by the Government a few years ago in return for black money.

India's corrupt traditions started centuries ago. They increased during the World War II and mushroomed when Mrs Gandhi allowed her late younger son, Sanjay, to wield power in the late 1970s.

Her elder son, Rajiv, says that one of the things that frustrated him most before he became Prime Minister was the fact that "we just couldn't break through the vested interests."

That is now the challenge he has set himself.



Women workers queue to clock-in for their shift at Lucas [illegible]

Population problems return to the agenda

A GOVERNMENT helicopter hovered over the slums of Madras where 1985 has been declared a "No Child Year," scattering leaflets which asked: "Why bear unnecessary children?"

More than 4,500 slum dwelling women marched through the southern India *city a few days later demanding* "the right to decide" and "freedom from conception"—a major expression of *feminine* independence in India's male-dominated society.

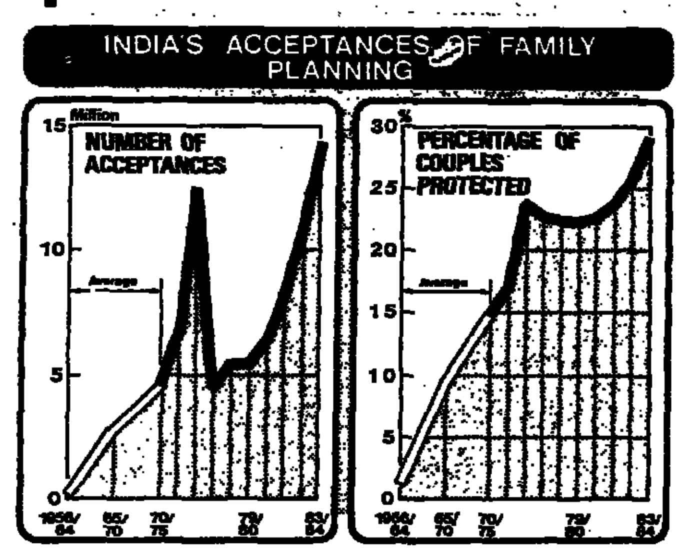
A *local motor components* subsidiary of Lucas industries of the UK this year won an award for family planning

The drive for family planning and contraception in India is being stepped-up, *encouraged by Mr Rajiv* Gandhi who says: "Today, our biggest problem is population, getting it under control, because it affects everything we want to do."

The World Bank estimates *that India's population* (717m in 1982) will rise to between 927m and 994m by the year 2,000 depending on trends in fertility and mortality rates.

For the year 2050, the forecast is 1.4bn to 1.5bn people. By *that time,* economists forecast India's population could have overtaken China's. But India, proud of its democratic freedoms, has no intention of adopting China's compulsory family planning pro*gramme.*

India ran into problems in the late 1970s when Mr Sanjay Gandhi, Mr Rajiv Gandhi's late brother, ran an aggressive



programme that included forced and coerced male *sterilisations.* That strategy set progress back for perhaps five years, but now there is a new political consensus and urgency, although the excesses of the Sanjay period are not forgotten.

"*Until* people's *social* perceptions change—that they are better off with fewer children and have a better life—you can't get acceptance of contraception: You must have that social engineering so the emphasis must be on education, information communication to generate demand for contraception," says *Mr* R. P. Kapur, the central Indian Government's Commissioner for Family Welfare.

"Unless we can persuade people to plan their families, rather than relying on the Almighty, we have no *future*," says Mr T. V. Antony, Chief Secretary of Tamil Nadu, whose capital is Madras.

"There was a time, a decade ago, when a family needed a lot of children to *ensure enough survived to do* the work as parents got older. That has changed.

"*And it is better to spend* money on good communications and on better medical facilities for people accepting sterilisations, such as clean beds and hygienic surroundings than to waste it on high cash-incentives that can be mis-used and attract the wrong people."

The aim of the Tamil Nadu Government is for families to have no more than two children and none after a man reaches the age of 33. Its programme consists of: mass communication, personal teaching improved health and after care services, and protection for children to reduce infant mortality.

In the Lucas factory, jointy owned with a local *group called TVS, none of the* top management has more than two children. More than 40 years ago, the company's chairman had a vasectomy and called in each employee to advise them to have no more than three children.

"We hear about some one having a third child and immediately counsel him and explain the advantages of having no more. They become aware of the need for planned parenthood," says Mr S. Narayanan, personnel manager. Out of 2,716 employees, of whom 2,574 are *male, 1,604* have *no* more than three children.

The aim of the central Indian Government is to increase the coverage by sterilisation from last year's 29.2 per cent of couples in the 15-to-45 age group *(up from* 2.2 per cent in 1980) to 32 per cent by the end of this year and to 42 per cent by 1990.

The birth rate was 33 per 1,000 population in 1983 and the target for the year 2,000 is 21, with the mortality rate dropping at the *same* time from 12 per 1,000 to nine. The overall and highly ambitious target for the year 2,000 is a net production rate of unity—so that a couple is only survived by two children.